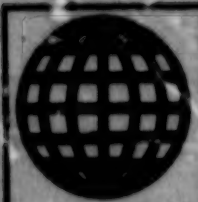


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'Balance of Interests' Concept in USSR Foreign Policy Discussed

90UF0502A Moscow PRAVDA in Russian 25 Aug 90
Second Edition p 5

[Article by M. Antyasov, candidate in historical sciences: "Toward Common Sense; Comments on the Foreign Policy Ideas of the 28th CPSU Congress. Concept of the Balance of Interests"]

[Text] Due to reasons which are quite understandable, primary attention today—both in our country and abroad—is riveted on the decisions of the 28th CPSU Congress regarding the burning domestic problems associated with the existence of our country and party. At the same time, it seems, the foreign policy concepts of the Congress remain somewhat in the shadows. Yet they too contain much that is principally new for the party forums. The present notes are comments on one of them—the concept of the balance of interests and its role in the country's foreign political strategy.

Why does it present particular interest? Not only because it is encountered for the first time in the CPSU resolutions. And not even because it raises an entire series of problems concerning the very essence of our foreign policy. The main thing is that this conception combines foreign political and acute domestic political problems, both economic and national. And this is at the current decisive stage of perestroika.

First of all, the very presentation of the concept of "balance of interests" signifies an affirmation of rationalism in the party's foreign policy, a sense of reality, a correlation of the desired with the attainable. It presupposes an understanding of the "cost" of each step in foreign policy—and, of course, certainly not only in the figures of direct expenditures or profits, but also in those intangible values which we may call an atmosphere of trust.

Moreover, the fact that this formula has found reflection in the congress resolutions of the renewed CPSU is also rather notable. It is no secret that at times certain "higher" ideological considerations justified the actions which in essence contradicted our country's interests. An obvious example, though certainly not the only one, may be the introduction of troops into Afghanistan. In essence these actions did not even contain any significant ideological justification, being the result of strictly "administrative" thinking. The very same thinking which built nuclear power plants near cities, rerouted rivers, and ignored the need for ecological protection of the country's land, water, and air.

Obviously, it is an undisputable fact that the country's interests must always be one of the principles determining its foreign policy. Yet today, in affirming the importance of these interests, there is a sort of orientation toward cost accounting in foreign policy. This is especially closely tied in with our domestic problems,

when at the threshold of radicalization of economic reform the entire country is "learning to count".

Despite their vulnerability, historical analogies may be useful at times. In the 60s of the last century, Chancellor Gorchakov characterized his foreign policy course with the laconic phrase: "Russia is concentrating". Thus, he delineated this course from the extravagances of the former regime of Nicholas which had ultimately led the country to the Crimean War, and emphasized the subordination of foreign policy to the tasks of realizing the reforms which were being implemented at that time, and which had largely changed the face of the country.

Of course, our Union is not Imperial Russia, and the realities of the late 20th century are much more complex than those under which conditions the state leaders of over 100 years ago implemented their policy. Yet like that far-off time, the period for implementing deep-seated reforms demands maximal concentration of the country's forces and a rejection of their dissipation on various actions which are not associated with its interests.

And it is specifically the steps which have been taken in recent years and which are being taken today, be they the reduction of nuclear or conventional weapons, the withdrawal of our troops from a number of countries, the efforts directed at creating not a block, but a common European system of security—that do not simply serve to radically reduce the danger of confrontation, but also ensure the only possible condition for renovation of our society.

A policy based on a balance of interests has one other important aspect. After all, this very concept presupposes in essence the solution of international problems by a certain compromise and consensus. Lenin possessed such an understanding in his last years. We have only to remember his broad plan for peaceful cooperation proposed at the first international conference—in Genoa, where Soviet Russia had occasion to participate—and his well-known statement, "We are going to Genoa as merchants".

Yet it just these qualities that we were lacking—the qualities of "merchants" in the broad sense of the word, qualities which presuppose an understanding of the need for mutually beneficial cooperation as the basis for international life. Instead, another quality reigned supreme—the desire to isolate ourselves from the outside world. Moreover, it is paradoxical that this isolation not only did not weaken as the country's strength grew, let us say from the 20s to the 50s, but on the contrary increased. There was a prevailing conviction that the social order which opposed us would be comparatively short-lived, that consequently the importance of ties with it was transitory, and that the contradictions bore an irreconcilable character.

In a specific practical plane, a strange situation arose over the course of decades, when we lived not for

ourselves, but for the sake of "catching up and surpassing" at any cost. And here the rational principle—the desire to ensure security—changed into an irrational one, and the desire to surpass became an "end in itself". Without this it is difficult to understand either the history of the country or the history of the party. After all, it is no accident, for example, that all the speeches presented at party congresses (the exception being the last two) began with foreign policy problems. This was not in line with the generally accepted position, according to which foreign policy is an extension of domestic policy. Yet it corresponded to that almost constant "front line" status in which the country lived. [It lived this way] both when this was really dictated by foreign conditions, and when it not only no longer corresponded to them, but on the contrary even worsened these conditions, increasing apprehension toward our intentions and consolidating the unity of our enemies.

The Stalinist conception of uncompromising struggle of the "two camps", which was aggressive in its terminology, as well as Khrushchev's naive-boastful "we will bury you", each expressed the ideology of entire generations, the hope that we need try only a little harder, to prove our supremacy by surpassing the USA, say, in the production of steel, and with the aid of the world revolutionary process the opposing order would collapse, and ours would finally triumph as the only one having the right to existence.

It is only the radical review of this entire arsenal of dogmas and their practical embodiment which desiccated and exanguinated the country, and which was so extremely dangerous in the nuclear age, it was only the affirmation of the policy of openness and priority of all-human values that have created the necessary basis for exposing the real interests, and for creating a balance of these interests, without which there cannot be international cooperation.

The words of Marx are well known, where he states that an idea invariably shames itself if it departs from its interests. Nevertheless, in the past decades we have formulated an attitude—although not always clearly expressed—towards "interests" as being something secondary, strictly subordinated to lofty ideals. Evidently, this was the result of ignoring in practice, for a long time and on an everyday basis, the interests both of the individual and entire strata of society, and justifying this with goals of a bright future.

Thus it makes even more sense to correlate our foreign political interests with the true ideals of our society.

First of all the concept of balance of interests, which is organically tied with other principles of the new thinking, certainly does not mean and cannot mean a rejection of our values and our socialist choice. Specifically, this very formula seems to oppose the ideas of domination and subordination, and, it seems, presupposes a respect for our choice, providing naturally that

we do not impose it on anyone and that we in turn respect the choice of others. The connection between the concept of balance of interests and the goals of ensuring a strong and stable peace is also evident. This concept stems from the principle of peaceful coexistence, but is not reduced to it. After all, before peaceful coexistence was understood as something forced, temporary, for "the time being", and was even viewed as a form of class struggle. Even later, when peaceful coexistence was acknowledged as a universal principle of relations between countries, it represented only a necessary basis for such relations which had to be filled with specific content.

And it is specifically the formula of balance of interests, along with the ideas of the rights of man and joint steps toward disarmament, that is part of the broader understanding of mutual relations between states, rather than simply their peaceful coexistence. It is a concept presupposing interaction, a mutual building by different countries, a transition from the era of the "cold war" and confrontation to the joint construction of a new world order.

Well, and how is the concept of balance of interests related to concepts which we hold dear, such as internationalism? The problem of internationalism, its sense and meaning in our day, deserves particular examination, and here we will touch upon it only in the context of balance of interests. It seems that internationalism in the nuclear age not does not lose its importance. On the contrary, this importance greatly increases. In light of the primacy of all-human values which stem from the dangers common to each nation, each class and social order, dangers such as nuclear war, ecological threat and the common goal for all—preservation of mankind, the main vector of internationalism today is the joint struggle of all social groups, all classes, and all nations to ensure the conditions necessary for the survival and progress of civilization. In this plane, the ideals of internationalism in their all-human significance go along with the ideas of the balance of interests. They have common priorities and common tasks.

At the same time, when we speak of our country's interests, a complex question arises which is associated with the multi-national character of the Soviet Union as a unique state formation—a union of sovereign states. This is an especially serious problem, since the national self-awareness of the peoples of our country today, like a tightly wound spring, is rapidly uncoiling and presenting the question of national interrelations as one of the key problems for the country's very existence. The deep-seated reason for this lies in the artificial suppression and curtailment of this national self-awareness, and as a result in its late development in our country, while in Europe the peak of such development occurred in the last century and beginning of the current one.

The real implementation of the right of nations to self-determination proclaimed by Lenin, to the creation then, after October, of a true voluntary union of states,

gave hopes for a civilized resolution of this problem. However, in subsequent decades the forms of the union became devoid of internal content, and the fist of a single authority forced all the nationalities together. The general outcome was the outburst of national self-awareness, intensified by economic difficulties and, because of prolonged suppression, tending at times to take on extreme and even irrational forms of expression.

Under these conditions, the common state interest may be built only with invariable consideration for the interests of each of the nations. Specifically, the balance of interests is important today not only in foreign policy, but also in domestic policy. We believe that in spite of all the practical complexity, such a balance is possible and necessary. Naturally, this must be with acknowledgement of the importance of common values and rights of each individual, each person, regardless of the nationality to which he belongs. It is specifically the transition to positions of the new thinking, the positions of common sense, which opens the prospects for unifying all-state and national interests.

Naturally, this does not mean that individual nations cannot have their own specific goals in foreign policy, just as in domestic. Undoubtedly, they do exist. Both the geographic position and the economic conditions, as well as the character of the national culture itself, presuppose such specifics. Yet at the same time, with a rational approach, the interests of individual nations do not have to conflict with the all-state interests. On the contrary, they may supplement each other.

After all, if the relations are built on mutual understanding, there is no division of peoples into greater and lesser, and then each nation can only benefit from such a union. It benefits also in its foreign political and foreign economic ties, being not an isolated entity, but an independent sovereign part of an integral whole—a renewed union of states.

On the other hand, destabilization of such a union, the growth of inter-ethnic tensions, the fires of inter-ethnic conflicts, undoubtedly pose a detriment to all the nations, a danger to the rights, freedom, and well-being of each person. We believe that such a development of events on one-sixth of the globe is contrary to the interests not only of the people of our country, but of the world community as a whole.

We would like to conclude these comments with words which sound current even today, words uttered by the remarkable Russian philosopher, Vladimir Solovyev, who said that each people is a "part of the universal whole". From this stems their solidarity "with all the other living parts of this whole, solidarity in the highest all-human interests".

Senior Soviet Diplomat Comments on Diplomatic Service Problems

90P50112A

[Editorial Report] Moscow ARGUMENTY I FAKTY in Russian No 38 of 22-28 September 1990 publishes on page 6 a 400-word article entitled "Receptions, Methods...", which is attributed to the TASS correspondent in Ethiopia. The article contains the views of an unnamed senior Soviet diplomat on some past and present problems associated with the USSR's diplomatic service. The diplomat, who has had much experience serving in Africa and Asia and who requested anonymity for the interview, remarked that in the past, former party 'functionaries' were appointed USSR ambassadors. Since these ambassadors were unacquainted with the languages and problems of the countries in which they served, the local leaders and diplomats of the other countries were not interested in them. In commenting on the young Soviet diplomats of today, the senior diplomat criticized them for not making wide contacts within the diplomatic community. He said that they are "very timid" in their approach to work, preferring to stay in their apartments and extract information from the local newspapers.

The diplomat complained that much 'formalism' remains in present-day diplomatic work. Many years ago, it was established that each Soviet diplomat had to prepare 25 records of conversations and four reports annually. The diplomat stated that quantity should not be the issue, but rather that the information offered be helpful to the Soviet government in its correct formulation of policy. He also found long diplomats' meetings to often be "completely useless," and said that the ambassador in one African country routinely conducted eight-hour meetings. The diplomat concluded his commentary by noting that the Soviet Ministry of Foreign Affairs assigns the same diplomats to work under difficult conditions in the countries of Africa or Asia, while others are consistently assigned to Europe or America. The diplomat stated that this practice is "wrong" in his opinion.

Soviet Opinion Poll on UN Conducted

90P50119A Moscow IZVESTIYA in Russian 23 Sep 90 Morning Edition p 4

[Article by G. Charodeyev: "What They Think About the UN in the Soviet Union"]

[Text] The United Nations information center in Moscow provided the information administration of the Ministry of Foreign Affairs with the results of a poll conducted in the USSR by the All-Union Center for the Study of Public Opinion. Three thousand adults representing all social and age groups in various regions of the country took part.

The results of the study showed that the UN is well known in the Soviet Union and its activities enjoy the

public's all-around support. Specialists, in particular, calculate that 82 percent of Soviet people know of the existence of the UN (at the time of a similar poll in the United States 92 percent of Americans answered affirmatively). More than two-thirds of those polled, 68 percent, were able to name the current general secretary of the UN. (In the U.S. only 15 percent of those polled named J. Perez de Cuellar, 13 percent thought that Kurt Waldheim headed the UN, and 64 percent were not able to answer the question.)

Regarding the Soviet people's opinion about the UN's activities, 25 percent of those polled gave it a high evaluation, 8 percent characterized the work of the UN as unsatisfactory, and 76 percent were not able to give an evaluation.

UN efforts supporting peace and settling international conflicts received the highest evaluation. Afghanistan and the Iran-Iraq war were cited most often as positive examples. Environmental protection, human rights, the

struggle against apartheid, and aid to victims of natural disasters were named as other areas in which the UN's positive influence was felt.

Decisively supporting further active participation of the UN in settling urgent political issues, the participants of the poll consider it necessary to broaden the involvement of this organization in resolving such social issues as struggling against drug trafficking and preventing crime.

Thirty-two percent of those questioned were able to name more than one organ or specialized institution of the UN. (In 1989 in the U.S. only 22 percent could do so). The most "popular" institutions and organs were UNESCO, the Security Council, the World Health Organization, the General Assembly, IAEA [International Atomic Energy Association], and Unicef.

Data from the poll shows that Soviet people receive most of their information on the UN from television.

Two Views of Soviet Foreign, Disarmament Policy Contrasted

One-Sided Concessions Alleged

90UF0480A Moscow LITERATURNAYA ROSSIYA
in Russian No 29, 20 Jul 90 p 3

[Article by Filipp Potapsev under the rubric "The World in Motion": "What Lies Ahead?"]

[Text] Many of us most likely noticed how our President carefully chose his words during the press conference with Chancellor Kohl: "We hope..." "I think..." "It appears..." "I would like..." The question of how the Germans will act toward us in the future, in united Germany, is by no means an idle one for Soviet people who assumed the full burden of World War II.

Is everything being done on our side as reason and the state of affairs in the world would dictate?

The very posing of the question of flaws in the present leadership's foreign policy course which appeared at the 28th CPSU Congress deserves full approval. For we cannot expect sound criticism of foreign policy departments in today's press.

It is appropriate to recall that at the dawn of perestroika articles appeared in a number of publications by well-known, just the day before "stagnant" international journalists distressed by the absence of a critical approach in covering Soviet foreign policy. They particularly emphasized that international journalists seemed to be kept down while the "domestic" journalists were enjoying their heyday. A few "critical" articles did in fact pop up, but they were generally more about the mistakes of the past and stagnation and Stalinism. And everything calmed down abruptly after the public exposure of the secret protocol to the Ribbentrop-Molotov Pact by the chief international journalist A. N. Yakovlev. The Protocol was declared illegal based mainly on the fact that it was adopted in secret and its contents not published.

But even today what is happening in our foreign policy also seems to be hidden from the public behind seven seals, just as before. Can we expect serious articles from our international journalists? And the point here is certainly not even that many of them "emerged out of stagnation," as they say, that is, served it faithfully and now have no less faithfully restructured themselves. An international journalist "lives" on foreign policy. And if he starts to criticize his leadership, business trips abroad and other "privileges" will disappear at once. In no country do the heads of state or the ministers of foreign affairs want to take a journalist who acts in a critical spirit and troubles their already shaky nerves into their suite. For the same reasons do not expect criticism from diplomats and employees of other foreign policy departments either. It is better for them to keep silent rather than risk their careers.

But let us return to Germany. Of course, no one could have predicted that Krentz, the successor to Honnecker and former head of the special services, would open the Berlin Wall "without permission" and thereby violate the strategic balance of forces in Europe which had become established over the years. And no one in the world could have predicted the passive position which the Soviet Union took in the matter of the reunification of the two German states either. It would seem that after losing at least 20 million people in the last war against Germany alone, the USSR should certainly play a prominent role in negotiations on the future order of the unified German state. But in practice exactly the opposite is happening. The present leaders of Soviet foreign policy, whose "portfolio" shows only the rather "compliant" Treaty on Intermediate- and Shorter-Range Missiles [INF Treaty] and a mass of rhetorical solemn declarations like the Dehli Declaration on a Nonviolent World, each time concede one position after another to the West.

And even though some people are getting the impression that the numerous meetings of Soviet officials with the leaders of Western states are evidence of activism of our foreign policy, many talk of just the opposite. On the waves of our spirited perestroika, NATO allies are trying to get as many concessions as possible from the USSR, and we see they are altogether successful. Today no one in the West appraises the negotiations based on the 4 plus 2 formula other than negotiations of 5 against one weakened Soviet Union. Look how the concessions come one after another on the issue of membership of the future unified Germany in NATO. Even quite recently the USSR unambiguously announced that a unified Germany could only be neutral. Then that it could be in the two blocs at the same time. Then that troops on GDR territory would not be part of the Warsaw Pact. And now our President has already agreed that the NATO structure will not extend to GDR territory. Consequently, unified Germany will be a member of the North Atlantic Treaty Organization, but there will be no foreign troops or nuclear weapons on former East German territory. Kohl in turn promised to reduce the armed forces of the future Germany by 42-45 percent (obviously at the expense of the former troops of the GDR) and make a declaration of friendship, and then—"We hope..." "I think..." "Apparently..." "I would like..."

No one is disputing that an altogether new political situation has taken shape in Europe. The threat of war has been put off and new prospects for cooperation have appeared. But all that would have been unattainable if the Soviet Union did not have extremely powerful nuclear and conventional weapons. Not one of the leading Western countries has abandoned the doctrine of nuclear containment. This doctrine essentially also defined our foreign policy even up to the mid-1980s. After the death of L. I. Brezhnev, Western Sovietologists noted that the Soviet economy was undergoing a crisis and corruption had reached threatening proportions, but despite all that the country had achieved the main

thing—strategic nuclear parity with NATO and final reinforcement of the Soviet Union's position as a superpower—that was indisputable. And what an uproar rose in the West, let us recall, when Reagan supposedly did not know how to deal with the USSR and when Yu. V. Andropov suspended negotiations in Geneva and recalled the Soviet delegation in connection with the start of deployment of American nuclear missiles in Europe. Did such a thing happen? It is not forgotten.

And now? It was possible, of course, to begin virtually unilateral reduction of medium- and short-range missiles (ultimately that is only 3 percent of all nuclear weapons, although, of course, it is a pity that the Americans "reduced" missiles that had not yet been produced). But can the process of our disarmament really continue indefinitely? Not to mention that disarmament, just like armament, incidentally, requires enormous expenditures (it is cheaper to store or cover the missiles). The decline in the Soviet Union's military might, which is happening very fast, will inevitably lead to increased aggressive aspirations of the Western states. Even now many thinking people in the West are asking the following question: if there is no strong Soviet Union, who will restrain the ambitions of the Western powers in the rest of the world? Who can predict what the ambitions of the future unified Germany will be like? Indeed, after the strong FRG swallows the GDR, the new Germany will very rapidly become the second economic power of the world. All this should undoubtedly make the Soviet leadership conduct negotiations on the future Germany with the greatest caution and persistence. But we do not need more pacts like the Ribbentrop-Molotov, and this time, if such a thing was to happen, there would be territorial, material, and moral concessions.

The venerable politician Kohl visited our President in his native Stavropol Kray with a broad smile and 5 billion marks in his pocket to offer to the Soviet Union as a loan, for tractable behavior in the negotiations, one may assume. Kohl indeed looks like a little dove, even though on Germany's political horizon he seems more like a wise eagle who does not chase small fry but chooses more important victims. The leaders of the two countries, bestowing smiles on one another, conducted the latest round of negotiations in a small mountain town with the name, unknown to many, of Arkhyz. What lies ahead?

Disarmament Policies Defended

90UF0480B Moscow ZA RUBEZHOM in Russian
No 33, 10-16 Aug 90 pp 1, 3

[Article by Viktor Karpov under the rubric "Ideas and Opinions": "The 'Profitability' of Foreign Policy"]

[Text] More and more often recently the Ministry of Foreign Affairs has had to answer numerous questions involving the evaluation of the effectiveness of USSR

foreign policy from the standpoint of its real contribution to meeting urgent challenges facing our country as a whole.

Of course, a precise material measurement of the results of certain foreign policy acts cannot always be given. Many of them exert an influence only after a number of years. But still the question of the "profitability" of foreign policy should always be a focus of attention, even though for our country this is in many respects a new and even unusual formulation of the question.

Unfortunately, not everyone knows what relations with other states and with the foreign world are. People do not always understand the difference in price between poor and good foreign policy and between what is desired and the optimal. But there is an enormous difference.

Reasonable foreign policy means above all creating favorable conditions for the country's development. First of all that means our policy in the area of disarmament. Its basic goals are to guarantee security with the lowest level of armed forces possible and eliminate the need to continue the exhausting arms race.

Just take the INF Treaty as an example; to this day people are expressing doubt as to its feasibility. A really large-scale goal was posed by the Treaty—to eliminate an entire class of weapons which have their own characteristics and place in the military balance. The elimination of the missiles is now near completion. In Western Europe there will be no weapon capable of hitting any target in the European part of the USSR in 7 minutes with an accuracy of a few meters. And the most important thing—there never will be any there.

True, we will not have such missiles anymore either, and some of us curse at that too. But why do we need them? For we still do not know what guided those who adopted them as weapons. The desire to be able to wage a limited nuclear war in Europe? Or simply to keep the capacities of defense design bureaus and plants busy?

Yes, we had to get rid of more intermediate- and shorter-range missiles, since we had more of them. But we must clearly understand that keeping even 10 "SS-20" missiles would mean that the Americans would still have these weapons too. So, the arms race would continue.

The second characteristic feature of our disarmament activity is related to that. Now we must constantly and in each case first scramble out of the impasse which we have driven ourselves into and clear away the obstructions which we ourselves have erected. And today for us arms reduction is above all reduction of surpluses, which also involves conventional weapons. We will face that in the future too, until we reach those levels which do not exceed the levels sufficient for the goals of defense.

Finally, any measure in the field of disarmament is a major savings when figured in the long term. The economic effect of the INF Treaty from reducing military

expenditures and redistributing them to the needs of the economy in 1988-1990 is on the order of 400 million rubles a year, and in terms of the years of the 13th five-year plan period—more than 600 million. Capacities which were involved in the production of intermediate-and shorter-range missiles are changing to producing new types of boring equipment, metal-cutting machine tools, highly efficient machines to process agricultural output, washing machines, children's bicycles, dishes, and other peaceful output. The assembly components released as a result of eliminating military complexes will be transferred to the economy free of charge, and that includes about 400 heavy-freight MAZ-547 chassis.

We must remember where we were in 1985 in order to evaluate the scale and orientation of what is happening on issues of guaranteeing security. That was the point of military confrontation with almost the entire world and hostile relations with most states, with the exception of a small group of countries close to us from among the moderately-developed and under-developed countries. The potential for limited nuclear war, the largest grouping of tanks able to carry out offensive operations in the world in the GDR (incidentally, that grouping was the main pretext for accusing us of aggressive intentions toward Western Europe), and the use of forces in Hungary, Czechoslovakia, and Afghanistan. All this also created distrust which is difficult to overcome.

Until quite recently few people believed that the turn of events which had occurred was possible. International development and contacts were too greatly deformed by the arms race, militaristic thinking, and mutual distrust. Today, it seems, the orientation to confrontation, which feeds the process of unrestrained build-up of military might, is beginning to be gradually dispelled.

The example of negotiations with the United States on strategic offensive weapons shows that. The agreements achieved at the summit visit of M. S. Gorbachev to Washington in May-June 1990 contain all the basic and necessary elements for preparations for signing a treaty on a 50-percent reduction of strategic nuclear weapons this very year. This document would mean that for the first time since the moment the strategic arms race began, the United States and the Soviet Union would begin to really reduce their strategic arsenals and that the way to the next stage would be opened—negotiations on strengthening strategic stability through the perestroika of American and Soviet strategic arsenals in such a way that, on the one hand, the possibility of a preemptive disarmament strike would be ruled out, and, on the other, conditions for further, even deeper reductions in strategic nuclear weapons would be ensured. The path to

the realization of the nuclear disarmament program of 15 January 1986 lies this way too.

It would be wrong not to mention that the West is meeting us halfway on issues of disarmament. The INF Treaty is being honestly fulfilled. In the past 3 years the United States has not increased its military budget, and has now begun to reduce it, and it has withdrawn a substantial number of nuclear weapons, stopped production of weapons plutonium and tritium, reduced the program for production of tanks, and withdrawn one aircraft carrier from the fleet, and plans to half the number of aircraft carrier forces and reduce the total number of submarines by 100 units. It has reduced the number of sea-launched nuclear weapons to one-third the former level.

At times demands are heard to reduce foreign policy activism, especially on disarmament issues. But certainly by withdrawing into isolation we would not cut ourselves off from the threat of nuclear or ecological catastrophe or economic problems. But we would deprive ourselves of the benefits of international exchanges and limit opportunities to modernize the economy and become familiar with the achievements of world thought.

People are also talking about unilateral concessions and surrendering of positions. Nowhere and in no instance have we made any concessions to anyone, but if we were making concessions, they were only to common sense. As for surrendering positions, that happened many years ago, during the period of stagnation, and now we are retrieving them. With difficulty, but we are retrieving them.

Let us take the problem of conventional armed forces in Europe. Two main "complaints" are being presented: unilateral reductions being made, and asymmetrical reductions on a treaty basis.

First of all, they are not being made at the expense of the security of the USSR; they were carefully checked and calculated in the Ministry of Defense. Their goal is to remove the surpluses which do not add to our security. In addition, the grouping of NATO troops which confronts us will also be reduced on a treaty basis.

The very concept of national security is changing. After emphasizing primarily military means, we are in an unfavorable position: economic, technological, and currency factors act as the source of political influence in the world and national interests to an ever-greater degree, while enormous arsenals cannot provide a rational response to today's challenges. Moreover, the destructive force of these arms is such that they cannot be used without risking the destruction of our own country and our neighbors and even the entire planet. Military ways and means for ensuring national security are objectively giving way to political and economic ones.

MFA Official Discusses Future of CEMA

90UF0454A Moscow PRAVDA in Russian 10 Aug 90
Second edition p 2

[Interview with L. Klepatskiy, deputy chief of the USSR Ministry of Foreign Affairs International Economic Relations Administration, conducted by PRAVDA correspondent O. Mikheyev: "Europe Without CEMA?"]

[Text] How will our country's economic cooperation with our East European neighbors be formulated after the radical changes which have taken place there? What will come to replace CEMA? What is being clarified at the negotiations currently underway?

These are the questions about which USSR MFA International Economic Affairs Administration Deputy Chief L. KLEPATSKIY spoke with our correspondent.

[Klepatskiy] The country's experts have prepared drafts of two documents which will become the basis of operation of the new organization. I might add that as yet [this organization] has no name, and the decision has been made to reject the old one, as well as the outdated mechanism of cooperation. These documents are the new organization's Charter, as well as a conception for economic cooperation which has no normative character. Perhaps they will be reviewed by the Session in the fall.

The main idea contained in these documents is the transition to normal market relations. We have jointly decided to reject the efforts to coordinate plans. We will trade with each other as the entire world does. Economic cooperation will proceed at the level of the enterprises, while the Council as an inter-governmental organization will deal with the exchange of information, consultations, analysis and prognosis. It is assumed that instead of the Session as the supreme organ of the Council and the Ispolkom there will be a committee of representative countries. There will be no more politization in economic relations.

[Mikheyev] The transfer ruble is dead. And prices—the current world prices—are not at all what they were 5 years ago. That, as far as I understand, is how the USSR government proposes to trade as of 1 January 1991. But what do the partners think of this?

[Klepatskiy] Yes, that is our position at the negotiations: Starting with the new year, we intend to perform trade accounting in hard currency at current world prices. We can no longer sell our neighbors oil and gas at a much lower price, and buy machines and equipment from them at prices higher than world prices, even though their quality is often lower. This would not be trade, but rather economic servicing of politics.

By the way, I would also like to cool the aspirations of those who expect multi-million dollar influxes into the treasury from these changes. In my opinion, there is no basis for euphoria. May God grant that we "break even": There are too many problems which have accumulated.

The main thing in the negotiations is not who will win today and how much. Rather, the main thing is to clear the road for revitalization of economic relations between our countries.

Now about the positions of our partners. We have already reached agreement with the GDR and Hungary. The other countries also do not object. However, they believe that this transition should take place gradually, over a period of several years. A number of countries, and among them Bulgaria, Czechoslovakia, and Mongolia, are proposing that during this period we use currency clearing for the most important goods and services, whose deliveries are determined by inter-governmental agreements.

The Polish and Cuban sides are proposing that we view the transition to the new system of accounting in complex with other questions. Our Polish partners, specifically, are raising the question of writing off their indebtedness in transfer rubles (around 5 billion). This indebtedness was incurred by the Poles in their most difficult, crisis-ridden 80s, when the USSR credited its exports to Poland. The viewpoint of the Polish side is that the USSR undervalued the pricing for construction work at joint construction sites for our oil and gas complexes where Polish workers and specialists were working. And if, they say, we perform a recomputation to world prices—we will come out at zero. Yet following this same logic, we could also recompute to world prices that "cheap" oil which we supplied to Poland for all these years... In other words, a set of problems arises which requires thorough analysis. Obviously, some compromises are necessary here. However, there should not be a departure from the line toward revitalization of economic relations.

[Mikheyev] Who sets the tone at the negotiations, and under what conditions are they taking place?

[Klepatskiy] These are difficult and complex negotiations. We cannot forget that we, a huge country, have incurred an indebtedness to all our East European neighbors. And now we are forced to reduce imports and thereby "cut" the export program of those enterprises which traditionally worked for our market. This destabilizes their economy to a certain degree. We must specify what and how much we will export and import in trade with these countries. We will also need to consider the sharp increase in the role of the union republics in foreign economic activity. There are many problems also on non-trade payments associated with tourism, individual trips, business trips, and financing of Soviet institutions abroad.

[Mikheyev] Will the changes affect both of the CEMA banks—the International Bank for Economic Cooperation (IBEC) and the International Investment Bank (IIB)?

[Klepatskiy] Undoubtedly. All the participants in the negotiations agree that we must make them real banks, active partners of enterprises, which are building all their

relations on a commercial basis. The following proposals are being discussed: To transfer both banks to a shareholding basis or to merge them into one. Perhaps some compromise will emerge. Let us say, for example, that both banks remain for the time being, but in the course of cutting back its investments in gigantic building sites, evidently the IIB will leave the scene. And here the negotiations are complicated by our large indebtedness to our partners (over 4 billion transfer rubles) for the facilities built using their credits. This indebtedness will have to be repaid with deliveries of oil, gas and other raw materials.

[Mikheyev] By the way, what has caused the current "unwitting embargo" on the shipments of oil to our neighbors, and will the situation be corrected?

[Klepatskiy] Oil extraction in the USSR has declined this year. According to the available estimates, by 18 million tons. And the prospects are not comforting. A dilemma has arisen: Either to provide fuel for our own national economy (and without it, as we know, the gathering of the harvest has begun to falter), or to fulfill our export responsibilities. As a result, we owe the East European countries already around 7 million tons of oil.

[Mikheyev] Lev Nikolayevich, what is the effect of the negotiations regarding compensation for facilities which were built and are being left by our troops in the GDR, Hungary and Czechoslovakia as they return to their homeland?

[Klepatskiy] Here, perhaps, is the most complex bundle of problems. I say this knowing the situation from within, since I myself participated in the negotiations with the GDR. The fact is that the legal status of the facilities built by our troops was not properly formulated when it should have been. There was no ill intent here. The people who compiled the documents exhibited elementary incompetency and irresponsibility. Some of their points were formulated imprecisely, which leaves them open to various interpretations. Here is an example. Certain facilities in the GDR, specifically military towns, went to the Soviet Army as trophies in the years of the war, and part of them were destroyed. Sizeable funds from the Soviet side went for their restoration. Yet later this point was not formulated in a legally competent manner, and the references of our military men to these circumstances are simply not accepted. Strict requirements are being presented for the technical condition of the buildings and structures, going so far as their capital repair.

Our expenditures on erecting military facilities in Hungary, the GDR and the CSFR comprise 1.5-2.5 billion rubles in each of these countries. In the GDR alone our military men, according to their estimates, built over 18,000 of the most varied facilities, and when we count the leased ones this figure reaches 33,000. At the negotiations our side wanted to somehow "commoditize" these considerable assets: To obtain for them either compensation or the right of free sale, or to use them as

a contribution to joint enterprise activity. However, the partners are presenting to us serious and often substantiated complaints about ecological loss: The military is withdrawing, leaving behind land which is polluted with fuel and lubricant oil ground into the tank sites and proving grounds. Recultivation will require large expenditures. The Hungarians even believe that it is not they, but we who must pay after the withdrawal of the troops. The GDR proposes a "zero" variant. The Czechoslovak side is indicating a readiness to compromise.

In conclusion I will add: The new quality of our economic relations with our neighbors in Europe is being born with difficulty. Yet all the parties are interested in it. Therefore, solutions must be found.

Future Of CEMA Viewed

Secretary Sychev Describes Reforms

90UF0509A Moscow *EKONOMIKA I ZHIZN*
in Russian No 33, Aug 90 p 19

[CEMA Secretary V. Sychev interviewed by TASS Correspondent G. Mikhaylin: "What Is CEMA's Future?—On The Eve Of Reform"]

[Text] Moscow—The special CEMA commission set up by decision of the Council's 45th session to draw up proposals for radical change in the system of economic cooperation of its member states recently held its third session.

CEMA Secretary V. Sychev described the planned reform's basic elements.

[Mikhaylin] Vyacheslav Vladimirovich, what were the results of the special CEMA commission's work?

[Sychev] The representatives of the CEMA members states drew up two documents: a conception of the new system of economic cooperation for the countries that belong to the Council, and a draft charter for a new organization that will be CEMA's legal successor.

Under the conception, the chief aim of economic cooperation among the Council's member countries is to promote the effective development of their national economies, an increase in the level and improvement in the quality of life of their people, the rational use of natural resources, and environmental protection. In principle, the CEMA member countries have agreed to shift to economic cooperation based on market relations, world market prices, and the use of freely convertible currency in their mutual accounts.

Naturally, the shift of a fundamentally different system of interaction necessitates a review of the basic principles governing the Council for Mutual Economic Assistance and its functions and structure. In effect, a decision has been taken to reconstitute CEMA as a new organization with a new charter. Full agreement has been reached on its basic provisions, but before it is submitted

to the next CEMA session, it will apparently be necessary to further reconcile certain points.

The level of development of market relations in each of the 10 countries varies, as does, consequently, their readiness for the transition to such cooperative arrangements. It was therefore difficult to reach consensus on the transition to the new economic relations. The difficulties were overcome by reaching an agreement among the countries to determine the specific terms, time frames, and procedures for the changeover to the new cooperation system on a bilateral basis.

However, from the very outset of the commission's work, there were no disagreements over the reform's radical nature.

[Mikhaylin] As you said, the commission sketched the outlines of the new organization that will succeed the CEMA. How "viable" will it be? After all, some Council member countries (Hungary, Poland, Czechoslovakia) make no secret of their desire to integrate themselves as much as possible into West European economic structures. In this connection, some specialists take the view that the new organization is needed only for some sort of transitional period, since it will be hard for the nine countries to quickly reorient their economies from the Soviet market to the West European one. In other words, the question is not one of creating a single market—or even any kind of integration. What is your view of this?

[Sychev] I would respond to the first part of your question as follows: The new organization will be "viable" to the extent to which it proves useful to each country. In my view, its usefulness is beyond doubt. The CEMA successor will allow its members to participate in any other international economic organizations, including organizations of an integrational character. Moreover, the organization's new draft charter allows its individual members to establish between themselves economic relations of any degree of depth, including relations of integrational character.

As concerns a transitional period, such a period is undoubtedly necessary. For it is simply impossible to change overnight from an administrative-command system of management based to a certain extent on artificial trade terms to the system of international economic cooperation universally accepted throughout the world. In my opinion, during this period the new organization will succeed in proving to its member countries that integration into the world economy within the organization's framework will be easier and more effective than embarking on this process alone. But that is my prediction. And making predictions, especially short-term ones, is a thankless task, as we know.

[Mikhaylin] Won't there be "movement at several different speeds" within the new organization? After all, its member countries are not making the transition to market relations in a synchronized fashion. In your opinion, when will it be possible to avoid such contradictions?

[Sychev] I already mentioned that the new draft charter allows just this sort of "movement at several different speeds." In my opinion, the existence of this phenomenon cannot be viewed as a contradiction. It will be one variant of the natural development of events.

[Mikhaylin] Vyacheslav Vladimirovich, do your own personal conceptual approaches to reform differ from those proposed by the CEMA member country representatives in the special commission?

[Sychev] With respect to the new conception of economic cooperation as a whole, I am in agreement with all its provisions. I can say the same for the draft charter. However, I believe that the Council Secretariat should become a powerful economic-analytical and consultative center, on the basis of whose functioning the CEMA member countries could to a significant degree make corrections in their interaction. Therefore, we should not severely limit the Secretariat's activities in this area.

Financial Changes Explained

90UF0509B Moscow *EKONOMIKA I ZHIZN*
in Russian No 33, Aug 90 p 19

[Article by Candidate of Economic Sciences Anatoliy Ivanovich Sokolov: "What Is CEMA's Future?—Question-Answer: World Prices, Convertible Currency"]

[Text] "The USSR President's decree 'On Making Changes in the Foreign Economic Practice of the Soviet Union' was recently published. Among other things, the decree speaks of a transition, as of January 1, 1991, to a new accounting procedure with the CEMA countries. I would be grateful if *EKONOMIKA I ZHIZN* would tell about this in more detail." The editors received this request from N. Rybkin of Tver.

Candidate of Economic Sciences Anatoliy Ivanovich Sokolov responds.

Important changes have been made in the Soviet Union's foreign economic practice. As of January 1, 1991, the USSR's mutual accounts with the CEMA member countries will use freely convertible currency, and reciprocal trade will be based on current world market prices, with mandatory regard for the level of competitiveness and quality of the goods exchanged. In accordance with the presidential decree, the draft laws and other acts necessary for the legal substantiation of this changeover have been submitted to the USSR Supreme Soviet.

They will place the entire system of economic interaction on a new economic foundation and bring it closer to world practice. This is in keeping with the character of the reforms under way in the USSR and the other CEMA member countries and will make possible the effective incorporation of their economies into the international division of labor.

For the Soviet Union, this also means a solution of the problem of balancing accounts with the CEMA member

countries. Given the USSR's growing negative balance in trade with the East European countries, the latter have resorted to imposing restrictions on deliveries of their goods to our country and are holding up shipments of products of the greatest sensitivity to it. In an effort to balance accounts, they are in effect trying to shift all the responsibility for nonfulfillment of their commitments onto the Soviet side. The existing system of contractual prices and accounts in convertible rubles has led to a paradoxical situation: The more raw materials and energy resources the USSR has supplied to the East European countries in recent years, the worse its trade balance. The supply of consumer and other goods from the CEMA countries to the Soviet market has decreased.

In the future, however, the closer linkage of prices for reciprocally supplied output to their qualitative and consumer qualities and to prices for similar products on the capitalist market will be able to save the Soviet Union 5 billion to 6 billion rubles (\$8 billion to \$10 billion at the official exchange rate) each year. Above all, there will be an end to the overpayment for machines and equipment, which we buy from these countries at essentially current world prices without any discount for their low technical level and quality. These prices exceed prices for similar products available on the world market by at least 60 percent to 70 percent. The levels of contractual prices for other goods are also unfavorable to the USSR. As a result, for each convertible ruble in trade with the CEMA countries, the Soviet Union receives 2.5 times less material value than it does for one foreign currency ruble in trade with Western countries.

On the whole, the use of world prices for the entire range of products that the USSR trades with the other CEMA countries shows that in the event of a shift to accounts in freely convertible currency, the Soviet Union will have a positive balance of at least \$10 billion to \$12 billion a year. Any delay with this measure would mean a loss for our country of \$50 billion to \$60 billion over the next five years. The European CEMA members themselves are already using the current situation to unilaterally adjust their economies to world market requirements and to reorient their foreign economic ties to the West. In particular, the Czech and Slovak Federal Republic has already withdrawn from all agreements on mutual coordination of national currency exchange rates by the CEMA countries, and has set a rate for the krona vis-a-vis the currencies of other Council countries in such a way as to favor the Czechoslovak side.

The transition to market economic methods fundamentally alters the character of cooperation among the CEMA countries. The mechanism for coordinating draft five-year economic plans will no longer be necessary. In a bilateral fashion, at the state-to-state level, the countries can each year coordinate: reciprocal deliveries of extremely important goods and services that play an especially important role in maintaining their social and economic development; reciprocal deliveries of goods and services for the implementation of major, especially

multibranch, projects of economic and ecological importance; and measures to maintain and balance the exchange of goods and services and balances of payments.

The question of mutual relations within the CEMA framework with Vietnam, the Republic of Cuba, and Mongolia merits special attention. According to calculations based on official CEMA statistics and data on levels of current world prices, in 1989 alone Vietnam, Cuba, and Mongolia, by virtue of the difference between contractual and world prices, received indirect subsidies from the other CEMA countries amounting to 14.7 billion rubles, including 12.3 billion rubles from the USSR. Of the total volume of such subsidies, Cuba received 11.6 billion rubles, Mongolia 1.4 billion, and Vietnam 1.8 billion.

In the new situation, the decision-making center with respect to the USSR's cooperation with the CEMA countries has shifted from the inter-party to the inter-state sphere. The determining factor in these ties is respect for sovereignty, noninterference, due regard for mutual interests, and recognition of the right of each country's people to choose their own path of development. This, in turn, necessitates the transition in reciprocal trade and economic ties to world market conditions.

Current Status, Future of CEMA Relations Examined

90UF0506A Moscow TRUD in Russian 28 Aug 90 p 3

[Article by V. Gavrilov, candidate in economic sciences: "Who Needs CEMA?"]

[Text] Neither status quo nor "shock therapy"... Who are we—"debtors" or "creditors"?... Wastefulness in the name of "coordinated responsibilities"... Three variants of our interaction in the future.

Who needs CEMA? This question in different variations is resounding ever more frequently on the pages of the world press. We will answer right away: The Council for Mutual Economic Assistance, perhaps with a less philanthropic name, is needed primarily by us and by the peoples of those countries which certain Western sociologists today call "post-socialistic". The matter here is not that we supposedly have a similar "degree of backwardness", and it is not a matter of geographical proximity, and not even of the so-called mutual supplementation of resources. The main thing is that CEMA is not simply an administrative building on the banks of the Moscow River, with its extensive bureaucratic apparatus (which, it is true, is today melting before our very eyes). Rather, it is an economic community whose formulation had taken decades, and whose disintegration leads to the same consequences as does any thoughtless destruction.

Nevertheless, the question has been posed. In fact, do those circles in the East European countries which are today tying their future to the "Common Market" really

need CEMA? Is it worth holding on to outdated traditions of cooperation under conditions when the process of privatization of ownership is going on in these countries, and when enterprises controlled by foreign capital are emerging? On the other hand, is CEMA needed by the Soviet Union, which in the "era of ideological supremacy" applied great efforts to ensure accelerated industrialization with the least cost to the "fraternal countries"?

Such cooperation ensured the creation of hundreds of new enterprises in the CEMA states, as well as the provision of these enterprises with raw materials and fuel and a steady sale of their finished products. And today the USSR obtains two-thirds of its imported machine building products through imports from the CEMA states, which are certainly no leaders in technical progress.

In recent times, the renovation of the assortment of mutual supply has been even more greatly inhibited, and high-quality goods rarely find their way into the commodity turnover. There are also many delays in deliveries and unfulfilled responsibilities. Funds for trade are hard to find. The efforts to continue management of cooperation only "from the top", on the basis of coordinated activity of the central economic management organs, have demonstrated their inconsistency. International wholesale trade (the market) stands out as an alternative to the formulated system of distribution.

It appears that even the most active proponents of the market "shock therapy" are in no hurry to apply this strong-acting medicine within the framework of CEMA. In any case, the dismantling of the old system has not yet really begun. There are some apprehensions being expressed that this may lead to changes in the formulated structure of the division of labor and in the proportions of trade which have become established, and may create shortages in foreign trade balances.

Before, the essence of coordination of the national economic plans was the defined volumes of possible deliveries of fuel, raw materials and other strategic goods from the USSR, and the search for goods to make up balanced counter-deliveries from other countries. Such an approach of the interested departments was characteristic up until the present time. In any case, up until quite recently the Soviet planning and foreign trade workers applied great efforts to ensure the formulated volume and structure of mutual trade by administrative means. Our partners also supported the efforts to retain the status quo of these relations.

It is a characteristic fact that when the pages of the East European press blossomed with eye-catching headlines regarding the fact that in 1989 the USSR had gone into debt to Hungary in the sum of 800 million transfer rubles, and in a similar amount to the GDR, when the disbalance of our trade balance with a number of other countries was tipped in every way possible due to the market conditions on oil prices, the response reaction of

the Soviet side was a feverish search for resources to fulfill the responsibilities assumed 5 years ago. Yet meanwhile the "creditor countries" were already beginning to forbid their enterprises to export products to the USSR above the established rigid guidelines.

All the while, few remembered that in its time the USSR gave its future "creditors" aid on a non-repayment basis and issued them numerous interest-free credits, part of which were simply written off with time. Moreover, certain Soviet credits have not been covered to this day. For example, Poland owes around 5 billion transfer rubles, and Bulgaria, Hungary and the GDR—about 1.1 billion each. Aside from this, it has become clear that if we re-figure into convertible currency the goods turnover of the USSR with the CEMA states, it will turn out that in terms of cost our country sells, for example to Hungary, twice as many goods as it buys there.

In short, the picture which has become apparent is not a very comforting one. In the name of "coordinated responsibilities", the USSR must continue to devastate its Siberian stores of oil and gas, obtaining in return machines and equipment which are non-competitive [on the world market]. Meanwhile, the countries of Eastern Europe are reducing their deliveries of even this machine building production to the Soviet Union, despite the fact that this means the closure of dozens of their enterprises and increased unemployment. In short, a tight bundle of contradictions has been formed. In order to untangle it today we need a radically renovated CEMA.

First of all, this organization must facilitate the creation of the necessary conditions for active inclusion of the participant countries into common European and world economic ties. Yet today (with the exception of the GDR, which has changed over to the balance of the FRG), no one is anticipating these conditions there. Therefore, while breaking the old ties in the CEMA region, each of these countries may only significantly complicate for itself the task of revitalizing the economy, retaining political stability, and ensuring social security of the population.

Outwardly, the Soviet Union is in a better position, as the basis of its export is comprised of currency goods. However, it would be naive to believe that already starting next year, thanks to the changeover to hard currency and world prices in trade, our country will be able to buy German "Mercedes" instead of Hungarian "Ikarus", and Swiss medicines instead of Bulgarian aspirin. It is impossible to re-orient a multi-billion foreign trade turnover all at once. For this it is necessary to first find buyers on an oversaturated world market.

Today, when the old forms and conditions of cooperation are being rejected by practical application, while the new ones have not yet been formed, the activity of enterprises as direct participants in foreign economic activity is still very low and comprises only 1-2 percent of the goods turnover. There were practically no contracts concluded between them at the latest international

trade fairs. Most of the enterprises still do not have hard currency at their disposal, or do not have the licenses to export their products. The need for inter-state regulation of mutual trade ties is largely retained.

What we have said here, however, certainly does not mean that we will again have to resort to measures which run counter to the course for development of a market economy in the countries and in the region. The old and new forms of economic management, as we know, are co-existing in antagonistic form, mutually weakening each other. In the course of cooperation, we must create alternative structures which will not simply augment the forms of economic relations which have arisen, but which will edge out and replace the latter.

There are three theoretically possible variants of our interaction. The first is to retain clearing trade, only implementing it in additional payments and in accordance with current world prices. Such an approach presupposes a more frequent levelling out of the emerging trade balance and its payment in cash dollars or currency goods. The second variant (commercial) entails a complete rejection of clearing and its replacement with autonomous buying-selling deals with payment in cash convertible currency. Both of these variants are impossible in their pure form, since they will mean either a retention of the former administrative system of interaction or chaotic contacts of random partners, which may quickly lead to a complete collapse of the market.

Stemming from this is the third, mixed variant—a two-sector model of cooperation, when part of the commodity exchange is performed on a clearing basis, and part on the principles of free commercial trade. We must take into consideration the fact that the commercial CEMA market is a peculiar market which is not like similar markets within the country. After all, the domestic commercial market is characterized by the fact that goods which are in short supply are sold at exorbitant prices, since the national currencies are devalued. On the commercial CEMA market, where trade will be conducted in cash dollars, the goods, in all probability, will be not more expensive, but cheaper than in the traditional sector. After all, while under the system of clearing the partners are obligated to buy goods in the order of mutual deliveries, in the commercial sector they will themselves choose their suppliers.

With the aid of a two-sector model of cooperation, perhaps, it will be possible to ensure for the CEMA countries a calmer transition to market relations in cooperation and to prevent the collapse of the regional market, which would have extremely negative consequences for all of its participants.

In short, CEMA is necessary today not so much for the redistribution of possible income and losses from the transition to a market economy, as it is for the very introduction of market relations in cooperation.

Openness in Weapons Export Policy Urged

90SV0019A Moscow LITERATURNAYA ROSSIYA
in Russian No 33, 17 Aug 90 pp 3, 16, 17

[Article by Valentin Katasonov (b. 1950), graduate of Moscow State Institute of International Relations, journalist, candidate of economic sciences, and docent at Moscow Higher Party School: "Arms for Export: The View Through the Prism of Conversion and the Dialectics of Advantage and Morality"; passages in boldface as published]

[Text] There is one sphere of our state's international activity which is still largely beyond the limits of glasnost today, in the 6th year of perestroika. This is the sphere of our overseas arms shipments. We can only guess that they occupy a far from secondary place in USSR foreign policy, have much to do with our international position, and have a definite influence on the Soviet economy. Recently our shipments of arms abroad have been the subject of many discussions in the press, and the excessive confidentiality of this topic (even for people's deputies of the USSR) is being subjected to justifiable criticism because it interferes with the accurate assessment of all of the pros and cons of Soviet military exports. Furthermore, most of the discussions have not been in favor of arms exports. Academician G. Arbatov, for example, who is known in general for his particularly furious attacks on our armed forces and defense industry, voiced vehement objections to arms exports at the Second Congress of People's Deputies of the USSR. The same idea was expressed in a "milder" and "more intellectual" tone in IZVESTIYA by Candidate of Economic Sciences Ye. Orefyeva: "Everyone will probably agree that the export of weapons is not the most moral pursuit and that this 'commerce' is completely inconsistent with our country's chosen line of alleviating regional conflicts."

We could agree with this, of course, but only on the level of abstract ideas. If we take an impartial look at all of the realities of the present day—both international and internal—we will see that the approach to Soviet military exports must be completely balanced and extremely prudent. Any ideological myths in this sphere could inflict serious injuries on the Soviet State.

The USSR in the World Arms Market

If we look into the statistical almanac "Vneshnyaya trgovlya SSSR" [USSR Foreign Trade], we will not find even a hint that the Soviet Union ships weapons abroad. If we want to find that kind of information, we have to turn to Western sources—the publications of the Stockholm International Peace Research Institute (SIPRI), the London International Institute for Strategic Studies, and others.

From them, we learn that the world arms market is one of the largest markets and that annual sales volume in this market does not drop below 30 billion dollars. Although the USSR's share of world exports is not even equivalent to 5 percent, its share of world arms exports is

much more impressive. In the last 15 or 20 years the stepped-up militarization of the developing countries has made the Third World the main sales market for arms producers. In the 1980's the Soviet Union accounted for from one-third to one-half of all the weapons shipped to the developing states. For the sake of comparison, we should note that the U.S. share of these shipments was 20-25 percent on the average. It is probable that sales of military hardware and other equipment have given the USSR a more solid position in the world market than any other group of commodities.

Although priority was assigned to the Warsaw Pact countries in our arms shipments, in absolute terms (cost and physical volume) most of the Soviet military hardware and other equipment (around three-fourths, according to Western estimates) was sent to the Third World countries in the 1980's. They included Angola (we shipped 5 billion dollars' worth of weapons there, according to SIPRI data, in 1982-1986), Ethiopia (3.8 billion dollars), Mozambique (1.3 billion), and others.

Between 1982 and 1986, for example, the Soviet Union sent the developing states 4,345 tanks, which represented more than a third of all shipments of these vehicles to the Third World countries, 1,545 combat planes—i.e., more than half—and over 900 helicopters—also more than half.

In addition to military hardware, the Soviet Union sells some states licenses for its production. In the past these were exclusively Warsaw Pact countries. The production of the T-72 tank was organized, for instance, in Poland and Czechoslovakia, and the production of armored personnel carriers was organized in Bulgaria, Czechoslovakia, and Romania. The manufacture of Soviet military hardware in some of the developing states has been discussed recently. In India, for example, arrangements are already being made for the production of the MiG-21 and MiG-27 planes, armored personnel carriers, T-72 tanks, and air-to-air missiles.

As a rule, deliveries of Soviet military equipment also entail the performance of various types of services. Specialists, instructors, advisers, and experts train personnel in the operation, maintenance, and repair of equipment. Unfortunately, there are no statistics on "invisible" exports of this kind. Some Western examples, however, provide some idea of the approximate income from them. In 1979 Northrop and other U.S. military-industrial corporations earned 3 billion dollars just in Saudi Arabia from the use of their technical specialists.

In spite of the aggravation of our economic problems and the evident erosion of the USSR's positions in the world economy, Soviet arms shipments abroad have remained on a steadily high level (it was not until the very end of the 1980's that a slight decrease was seen in the USSR's share of the world arms trade).

According to Western estimates, Soviet military exports amounted to 45.9 billion dollars between 1984 and 1988.

In cost terms, this is comparable to the export shipments of Soviet oil. Unfortunately, this does not mean that, as some people think, the military business is a major source of currency revenues for the USSR. This is absolutely false. Only a few recipients of Soviet weapons (including the rich oil-producing states) pay the Soviet Union in hard currency. Soviet weapons are usually shipped to developing countries on preferential terms—on credit at a low rate of interest and deferred payments, or for free—in the form of military aid. At the end of 1989, according to the data of the USSR Ministry of Finance, the developing countries owed the Soviet Union a total of 42 billion rubles. Military shipments account for most of this debt. According to SIPRI data, Syria alone owes our country 12 billion dollars for weapons. It would be difficult to expect the developing countries to pay what they owe us for military shipments in the next few years. The debts of such countries as Syria, Ethiopia, Mozambique, Angola, South Yemen, Nicaragua, and others are a matter of particular concern. Some of these debts will probably have to be written off completely. Judging by all indications, the arms trade has not only failed to provide us with billions in profit but is also absolutely unprofitable.

Today, now that the vigorous perestroika of the foreign policy and foreign economic activity of the Soviet State has begun, new approaches to our military shipments to developing countries must be considered. Even a preliminary analysis of these shipments indicates that they did not always help (and some feel that they almost never helped) in the attainment of the desired foreign policy goals (we can find sufficient proof of this in Egypt, Somalia, and Ghana, where the so-called "capitalist pattern of development" was restored)—i.e., we must admit that military shipments are far from the most effective foreign policy instrument. Today it is hardly worthwhile to even think of them as a foreign policy instrument, now that we are renouncing the forcible propagation of socialism and the so-called "socialist orientation" in the Third World countries and all forms of interference in the internal affairs of sovereign states. At the same time, we can and must view overseas military shipments as an exceptionally important area of our state's foreign economic operations. We should transfer our shipments of military hardware and other equipment to a commercial basis as quickly as possible. In other words, we should begin selling them for cash or on credit at the regular rate of interest, with payments primarily in hard currency. If we could do this, we would be able to turn military exports into our second largest source of currency after oil. This is particularly important today, now that our petrodollar revenues are decreasing as a result of the decline of world energy prices.

'A Popular Place Is Never Empty'

I can hear all of the objections in advance: What we need, people will say, is not to think about the commercialization of overseas military shipments, but to consider their reduction and complete cessation. This, they

will say, is demanded by the new thinking and by the Soviet Union's declared idea of international security. No one is denying that military shipments are intensifying militarization processes in the Third World (today the poorest countries are already spending a monstrous amount on military needs—200 billion dollars), that they create the danger of the escalation of regional conflicts, that the weapons can be used for policing and repressive purposes and for the suppression of the national liberation movement, etc. The international community (including the Soviet Union) was aware long ago of all of the possible fatal consequences of military commerce.

Back in 1978, at the first session of the UN General Assembly on disarmament, all states were already unanimous in the opinion that the limitation of the international arms trade should be negotiated. But this was so many years ago, and the appropriate international agreement has not been signed yet. The obstacles are too great. Above all, the limitations are opposed by several developing countries. They invoke Article 51 of the UN Charter, stipulating the right of all states to individual and collective self-defense. This right, in their opinion, cannot be secured unless weapons can be purchased freely in the world marketplace. There is no reason to even mention that the military-industrial monopolies in the West object to these restrictions. The Stockholm International Peace Research Institute published a list of the 100 largest companies and concerns (excluding those in the USSR and PRC) producing weapons. On this list, 48 of the firms are in the United States, 12 are in Great Britain, 10 are in France, 9 are in the FRG, 5 are in Japan, 3 are in Italy, 1 is in the Netherlands, 1 is in Spain, 4 are in Sweden, 1 is in Switzerland, 2 are in Israel, 1 is in South Korea, 1 is in South Africa, 1 is in Brazil, and 1 is in India. Furthermore, the American companies account for two-thirds of all the military products of these firms. The British, French, and West German firms produce 10 percent, 8.5 percent, and 5.5 percent, respectively, of the military output of these 100 firms.

Some monopolies and even whole branches of the military industry in the developed capitalist countries work primarily for the foreign market and could not exist without it.

The French military industry, for example, is deeply "immersed" in the foreign market. For instance, 40 percent of the military products of its aerospace industry are sent to Third World countries. In general, France is a good example of a country engaging in active military-economic expansion abroad. Between 1970 and 1986 French exports of the main types of weapons to developing countries increased 10.7-fold and amounted to 3.2 billion dollars in 1987. The main French suppliers of military hardware to developing countries include the Aerospatiale, SNECMA, Dassault-Breguet, and Turbomeca aeromissile monopolies, the Schneider engineering concern, the KGE, Thomson, and Matra electrical equipment and electronics corporations, and the

Renault, Peugeot, and JIAT automobile firms. The main items of French military exports are aircraft and missiles (two-thirds of all exports), as well as tanks, armored personnel carriers, and torpedo boats. In the 1980's the main buyers of French weapons were Iraq, Saudi Arabia, India, Argentina, and Egypt. In 1984 France managed to get one of the largest contracts in the history of the world arms trade—the contract for the delivery of an anti-aircraft missile system worth 4.5 billion dollars to Saudi Arabia.

Processes of military-economic integration within regional groups of states have recently been stepped up in the world, providing the momentum for the continued development and expansion of the international arms market. In 1988, for example, the "Euclid" program, envisaging cooperation by West European countries in military research and development, was adopted by the EEC on France's initiative. This program, according to ruling circles in several countries, will strengthen the military industry of the Common Market and create a common arms market within this integrated group to compete with U.S. military firms.

Whereas only 5-10 countries (the USSR, United States, France, Great Britain, FRG, and some others) were exporting weapons in the 1970's, today the club of arms exporters has at least 40 members. They include such states as Spain, Italy, Belgium, Sweden, and other developed capitalist countries. There is a genuine "defense boom" in Japan, which is applying its technological achievements to the development of the military industry. Poland and Czechoslovakia are also selling some weapons. China has joined the club of the leading exporters. In terms of military shipments to developing countries, it ranked third in 1988—after the USSR and the United States and ahead of France. Finally, several developing states are now operating in the world arms market—Brazil, South Korea, Egypt, Chile, Indonesia, Jordan, and others. In all, arms shipments from developing countries already represent 15 percent of world arms exports.

All of this suggests that the competition in the world arms market is growing more intense with each year. The Soviet Union's voluntary withdrawal from the market would not reduce the scales of the international military business or weaken militarization processes in the world: Its place would be taken immediately by other arms exporters. Under these conditions, should we leave the world arms market?

Today the popular word "conversion" is on everyone's lips. Proportional expenditures on defense in national income should decrease by two-thirds by 1995. In 1990 and 1991, 14 percent of the production units in the defense complex are to be converted for the manufacture of civilian items. Proceeding from our new defense doctrine, directive bodies made the hasty decision to reduce the output of tanks, strategic missiles, military aircraft, infantry fighting vehicles, multiple rocket launchers, and so forth during the 13th Five-Year Plan.

Vigorous efforts are being made to convince people that cuts in military production will "open up" the "bottle-necks" in our economy. There was considerable public euphoria in summer 1989 after Deputy Chairman N.S. Belousov of the USSR Council of Ministers announced that our defense potential would be used to, as he put it, treat 10 sore spots (agriculture, light industry, the food industry, ecology, and others). The familiar belief in "miracles" was reawakened. Today, however, it is becoming increasingly obvious that so-called "conversion" is just another poorly planned campaign with many of the same features as the opportunism of the period of stagnation. Doctor of Economic Sciences N. Mikhaylov, chairman of the Moscow Union of State Scientific and Production Enterprises and general director of the Vypel Central Scientific-Production Association, had this to say about the matter: "Sooner or later, this 'state-requisitioned' but essentially arbitrary conversion will lead us nowhere." Suffice it to say that conversion will require the major remodeling of many defense enterprises, for which capital investments in the amount of several billion rubles are stipulated in the 13th Five-Year Plan. The actual return on these investments, however, will be seen after the end of the next five-year plan at the earliest. According to the estimates of the Institute of the Economics and Forecasting of Scientific and Technical Progress of the USSR Academy of Sciences, conversion will lower the growth rate of national income perceptibly in the next few years. At a time of the extreme exacerbation of our socioeconomic ills (and this is exactly how the present situation in our country is described by many experts), does it make sense for us to exacerbate them even more?

We should also remember that the poorly planned and hasty conversion of defense enterprises from the production of complex high-technology items to the manufacture of simple consumer goods could lower requirements dramatically in scientific research and development and in product quality. No matter how isolated our economy is from the world economy, our defense industry has always felt the "breath" of Western competitors: We could not afford to have less military potential than the NATO countries. The permanent presence of our defense enterprises in the world arms market also caused us to feel the effects of competition. Incidentally, our defense industry turned out to be much more deeply "immersed" in the international market than many other branches. According to SIPRI data, 17.5 percent of all the products of the Soviet defense complex were exported in 1986 (meanwhile, the same indicator in the United States, for example, was only 5.9 percent). Even if we did have to pay a high price, we managed to develop weapons systems equal or even superior to the best Western models. The conversion of our defense complex for the manufacture of consumer goods at a time when our "hungry" customer is willing to "eat" everything he is offered, would take us out of the competition and cause what V.I. Lenin called "technical stagnation and decay."

We also have to consider the fact that an "elite" group of scientists, engineers, technicians, and skilled workers took shape in our military-industrial complex in the postwar decades. The personnel of military enterprises have recently been virtually divested of their financial and social advantages over the "civilian complex." This could cause the disintegration of the intellectual and creative potential of the defense complex. Negative factors of a moral nature will also have an impact. People who were proud of being on the cutting edge of scientific and technical progress just yesterday are upset today by the news that they will be producing baby carriages, washing machines, and even pots and pans. Specialists are quietly leaving the industry to go to work in cooperatives, the "luckiest" are finding positions in joint ventures, and some are looking for a "haven" abroad. Teams capable of performing the most complex jobs are falling apart before our very eyes, and this is a sign of the disintegration of national scientific and technical potential.

In short, the present conversion campaign is similar to the "classic" case (we should recall the corn campaign, the struggle against drunkenness, etc.), in which we go right ahead and make the cut without taking a single measurement.

Is there really no reason to consider our alternatives? If there really is a need to reduce deliveries of military equipment to our own armed forces in line with the new political realities, might it not make sense to send the resulting surplus product of the defense complex to the foreign market? In this way, we could earn additional currency and buy the urgently needed consumer goods abroad.

This way of solving the problem is dictated not only by purely economic considerations, but also by military-strategic ones. We might have detente and we might have disarmament, but this is no reason to give up our vigilance. To put it in the simplest terms, the USSR and United States need not only a military-strategic balance, but also a balance of vigilance. The United States and other NATO countries are clearly ahead of us today in this area. What do I mean? The Western military industry always had—and still has—a sizable reserve of available facilities and temporarily closed enterprises which could be put to work at any time in an emergency. Our defense complex, on the other hand, was always expected to work at the highest possible (and even impossible) level. We should maintain parity with the West not only in arms and armed forces, but also in military-economic potential. Therefore, we cannot demolish the vacated facilities of the defense complex or re-specialize them for the production of pots and pans. To keep them from standing idle and to make certain that they work for us, we must gear them to the export market.

The revision of Soviet defense doctrine is not only reducing purchases of military equipment, but has also

caused the sudden appearance of a large surplus of various types of weapons and other equipment in our armed forces.

Back in December 1988, M.S. Gorbachev was already announcing reductions of our armed forces and arms at a UN General Assembly session. In particular, the number of our tanks was reduced by 10,000, of our artillery systems by 8,500, and of our aircraft by 800. Our troops and military hardware are being withdrawn from the East European countries. For example, 1,483 infantry fighting vehicles and armored personnel carriers and 622 artillery systems (including multiple rocket launchers), mortars, and self-propelled guns, as well as 152 planes and 117 helicopters are being withdrawn just from Hungary. Part of the surplus military equipment consists of so-called "dual-purpose goods" (motor vehicles, communication systems, navigational equipment, and others). Trade fairs, auctions, and sales of this equipment are now being organized for Soviet state enterprises and cooperatives. I think foreign buyers could also be invited to these so that the sales would provide us with foreign currency as well as rubles.

But what about the equipment designed solely for military purposes? As far as we know, they are trying to "strip" it as much as possible (removing everything "that might be of use in the economy") and send the remaining "scrap metal" to the compactor or out to be resmelted. I think it would be much more practical to sell this equipment to developing countries—even at half-price. It is interesting that this way of solving the problem of surplus Soviet weaponry is already being analyzed in the West. Ronald Lehman, head of the U.S. Arms Control and Disarmament Agency, for example, has expressed the fear that the Soviet and Warsaw Pact weapons involved in the mass reductions will eventually end up in the world marketplace instead of in the compactor or the foundry. I think there is nothing reprehensible about the sale of surplus military equipment unless it is restricted or prohibited by international agreements. Incidentally, ever since the end of World War II, the United States and some other NATO countries have been selling the combat equipment and other military supplies they remove from operational status.

The Defense Complex Must Earn Foreign Currency

It will not be easy to maintain, not to mention expand, our presence in the international arms market. Whereas the competition in the arms market was previously based essentially on prices and we managed to occupy a leading position on the strength of our low prices (often equivalent to outright dumping) and convenient terms for clients, today the situation has changed perceptibly. Even some developing countries want to have the most technically advanced arms. Today jet aircraft are no longer a luxury in the Third World. The demand for missiles is rising. Can we satisfy the rising demand in the world market? I think we can, in view of the high scientific and technical level of many of our military

production units. Back in 1963, for example, we managed to develop the Malyutka antitank guided missile system, an absolutely unique system and the best of its kind in the world. To this day, according to S.P. Nepobedimyy, a corresponding member of the USSR Academy of Sciences and a designer of military equipment, no one has been able to surpass Soviet antitank systems. Shipments of the Malyutka system and other antitank guided missile systems have supplied us, and are still supplying us, with impressive currency receipts. Here is the opinion of Chairman V.L. Lapygin of the Defense and State Security Committee of the USSR Supreme Soviet: "In some types of arms, we are equal to them (the Americans—V.K.), and even superior to them in some respects in the case of some types of conventional arms and heavy intercontinental ballistic missiles."

Until recently, the Soviet Union has been regrettably slow and sluggish in making decisions on the sale of new types of weapons. Until recently, these could be sent only to Warsaw Pact countries and some other socialist states. Comparatively new weapons recently began to be shipped to some developing countries. India, Iraq, and Syria, for example, were sold MiG-29 fighter planes, but this occurred after American and French planes with identical or superior tactical and technical characteristics appeared on the world market. Furthermore, as one SIPRI publication commented, this plane was "an exception in Soviet arms exports" in 1988.

The budding process of the declassification of our defense enterprises' technically sophisticated products and the lifting of bans and restrictions on the sale of these products abroad should strengthen our position in the world marketplace. The production of aircraft engines is a good example. These technically complex items are produced only in four countries—the United States, England, France, and the USSR—and the demand for them in the world market is extremely high. The "Airplane Engine Construction-90" exhibition in Moscow in March 1990 could have been called "Secret-90." Research institutes, design bureaus, and plants which had previously been strictly off limits to outsiders, displayed their scientific and technical potential in the design of aircraft engines to the general public, including foreign visitors. Their exhibits included the D-18T engine from the largest Soviet Ruslan and Mria planes and the economical and quiet PS-90 engine from the advanced Il-96-300 and Tu-204 airliners. There was also purely military equipment, such as the Al-31F engine from the SU-27 plane, the best fighter plane in the world, and others. Contacts were established with foreign firms, and these could lead to impressive commercial transactions in the future. They could have an extremely strong impact. The foreign trade price of the D-18T engine, for example, is 5 million dollars. The sale of 200 of these engines would provide our country with a billion dollars, which would buy at least 10 billion rubles' worth of consumer goods (in domestic retail prices).

The USSR's recent participation in several international exhibitions of military equipment abroad has been extremely successful. The "Asia Defense-90" fair in Malaysia at the beginning of 1990 was a good example. In the Malaysian capital, we exhibited several of our latest models of military equipment for the first time. They included the Uragan and Smerch long-range multiple rocket launchers, a 5.45mm small arm, a tank guided projectile, and the DT-30P carrier vehicle. The Mi-28 combat helicopter was exhibited for the second time after the exhibition in Paris. In addition to receiving bids from foreign firms and organizations on the equipment we displayed in Kuala Lumpur, we also received proposals on joint ventures in the conversion of arms into civilian equipment. One Western firm was particularly interested in re-equipping Soviet military helicopters for passenger transport. The DT-30P vehicle, which can cross impassable swamps and rivers with a payload of 30 tons, aroused considerable interest in the Southeast Asian countries. With just a few changes in design, it could be used for transport in tropical jungles.

When we are looking for additional military export reserves to increase the currency return on our military-technical potential, it will be important to avoid going to extremes. What I am saying is that there are definite limits to the disclosure of our scientific and technical secrets in the military sphere. We must not allow sales of our equipment to strengthen the military potential of the United States and the NATO countries, and so forth. Unfortunately, the danger that we will go to this extreme and lose touch with reality does exist. The abnormal situation which has recently been taking shape in our defense complex was described comprehensively by Corresponding Member of the USSR Academy of Sciences S.P. Nepobedimyy:

"At this time we are simply reveling in our freedom of speech and expression, disclosing and revealing everything possible, while the opposite is occurring in the United States. The military-industrial complex is cutting off access to the latest technological developments, and secrecy requirements have become stricter at defense enterprises, especially those conducting investigative projects with the latest means of warfare."

Under the present conditions of perestroika and the expanded initiative of enterprises and research institutes, I think that any kind of autonomous decisions by the defense complex to enter the foreign market would be impermissible. The possible sale of a particular product, not to mention advanced technology, abroad should be carefully considered in each specific case and approved by the Military-Industrial Commission of the USSR Council of Ministers.

The need for the effective supervision of overseas military shipments was made all the more obvious by the massive repercussions of the "tank scandal." This was the incident in which the ANT state-cooperative concern tried to "slip" 12 of the latest T-72 tanks, completely equipped for combat, out of the country through the port

of Novorossiysk. The shipment was halted by the vigilance of our state security personnel literally by accident. The preliminary investigation indicated that the enterprising dealers were planning to send around 2,000 combat vehicles to foreign buyers through the port of Novorossiysk! The manager of the concern, V. Ryashentsev, also admitted that they were planning to sell MiG-29 planes abroad. How did this kind of situation arise? How were the tanks of our military plant sent to places unknown for the first time in the history of our defense industry? All of the details of the case have not been clarified yet, and the incident itself has not been assessed properly by the Supreme Soviet of our country, the Procuracy of the USSR, or other concerned agencies. The Soviet people certainly do care who gets our weapons and against whom the weapons might be used. The incident also aroused some anxiety abroad: People there certainly do not want the reduced or "above-plan" Soviet military equipment to fall into the hands of questionable dealers who will sell it wherever and to whomever they please. According to SIPRI estimates, illegal trade (the so-called "black" and "gray" markets) accounts for from 5 to 10 percent of the total volume of arms sales in the world. There is the valid fear that the illegal international military business might be expanded by unsupervised exports of weapons from the USSR.

Unfortunately, questions connected with Soviet military exports and military aid still have not been discussed specifically at congresses of people's deputies or at sessions of the Supreme Soviet. There is an urgent need, however, to draft a law as quickly as possible to regulate shipments of weapons abroad. To date, regrettably, these shipments have remained under the control of the departments concerned. Soviet Defense Minister D.T. Yazov was asked who oversees sales of weapons abroad and whether he did not think the Supreme Soviet should do this. This was his answer: "Sales of weapons abroad are overseen by the Ministry of Foreign Economic Relations in conjunction with the Ministry of Defense and the Ministry of Foreign Affairs." I think that large contracts and intergovernmental agreements on military shipments must be discussed in the Defense and State Security Committee of the USSR Supreme Soviet and that the final decision should be made by all of the people's deputies of the USSR. All factors and circumstances must be taken into account: commercial, political, military-strategic, and scientific-technical (the balance of power in specific regions, the political and social situation in the recipient-country, its solvency, the presence or absence of UN embargoes and embargoes of other international organizations, the level of technical sophistication of the weapons to be sold, etc.).

Here is another important point. Judging by the statements of Soviet and Western experts, the export of weapons could more than cover the currency needs of our defense industry. No matter how much currency our defense enterprises earn, however, it ends up in centralized state funds through the effects of "assessments." This situation is becoming absolutely intolerable now

that the conversion of the defense complex has been announced. At the February (1990) CPSU Central Committee Plenum, Minister of the Defense Industry B.M. Belousov suggested that military enterprises should be able to keep at least part of the currency they earn. Without this, the conversion of military production, which will require large purchases of imported equipment and materials, will remain nothing more than a slogan. Without this, I feel that the conversion of military exports (which certainly should be envisaged in long-range plans for our socioeconomic development) will also be impossible.

Trade Imbalance Blamed On Foreign Trade Sector Reorganization

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[Article by Ye. Smirnov, Senior Expert from the foreign trade association "Raznoeksport," on problems in Foreign Trade Sector Reorganization: Trial by Import Billions Lost As a Result of Careless Reorganization of Foreign Economic Activities]

[Text] Reorganization of foreign economic activities has not gone smoothly. For three years, foreign trade and foreign trade associations which were central to the commercial activities and economic and pricing policies of foreign trade have been heating up.

The trade balance in 1989 was a negative one, down by 2 billion rubles. The annual export plan was filled at 98 percent, with freely convertible currency at 91 percent. General goods turnover dropped from 142.1 billion rubles in 1985 to 132.2 billion rubles in 1988.

These numbers are not auspicious and force one to do considerable thinking. I would like to cite nevertheless a few reasons for comparable negative results.

Number of Merchants Up For No Reason

First of all, the structure of foreign trade is inefficient, with a technological lag and narrow level in the area of industrial processing.

As far as is known, before adoption of the decision on reorganization of foreign trade, an expert commission from the former Ministry of Foreign Trade concluded that approximately 75 percent of our own machines and tools produced do not answer to the needs of the international market. Industry ministries, on the contrary, differed from this conclusion and demanded an independent entrance into the foreign market, which was passed.

To be involved in foreign trade did not turn out to be as easy as many thought it would be. Ministries, departments, and enterprises, having received the right to go into the foreign market, were completely unprepared for commercial work, which demands extremely specific knowledge and the presence of qualified specialists in various areas. The number of Soviets occupied in foreign trade operations is steadily growing, but their competency is not always at the level it should be.

Nearly 50,000 workers were employed in foreign economic operations in the USSR and abroad before the reorganization of the former USSR Foreign Trade Ministry and the USSR Council of Ministers State Committee on Foreign Trade. Currently no one knows how many there are, but it is to be thought that their number consists of some 100,000. And the number of registered enterprises that have received the right to conduct business in the foreign market has exceeded 10,000. The creation in each ministry, department and industrial enterprise to have their own administration or division dealing with foreign economic matters has even become fashionable.

Each Does What He Can

Apart from this, foreign trade is suffering for lack of an organ that would coordinate and direct the activities of our numerous enterprises, departments, and ministries in the foreign market in the area of pricing policy. In view of the world situation, the time to enter the foreign market and other conditions, with regard for, I think, the interests of the entire national economy.

It is well known that in the developing capitalist countries coordination of pricing policy and unity of word in the foreign market is provided. For example, in Japan this work is carried out by an association for export development which specifically provides enterprises information on prices in the world market and gives necessary recommendations in the area of pricing policy, primarily to small starting firms.

But what about us as we trade, crossing the rails of financial independence? Alas, I need to say directly that some foreign firms, using the inexperience and incompetency of Soviet enterprises and organizations, have hurled themselves into our market in order to sell obsolete products at too high a price, having decided that this is not too difficult given the conditions of a general deficit in our domestic market. On the other hand, taking advantage of the right to go into the foreign market, some of our own enterprises have begun to purchase, in haste, with hard currency and without any kind of consultation, household electronic technical equipment. It is most frequently purchased without guaranteed service or spare parts. The losses in this have been considerable.

The association "Arkhangelskiesprom," for example, purchased "Panasonic" televisions for 570 non-convertible rubles, whereas "Vneshposyltorg" offers similar televisions at 210 non-convertible rubles. "Raznoeksport" was able to buy a similar television set in South Korea at 180 non-convertible rubles, no less, as well as a guarantee of service.

One couldn't begin to count similar occurrences, only we don't know about them, since import prices have become a departmental secret and no one regulates them. Even the USSR People's Control Committee has removed itself from control of them, although earlier

they did give these matters serious attention. So what this means is that the interests of the state and the consumer are suffering.

Other serious problems are cropping up in the work of enterprises that have obtained the right to use hard currency for the purchase of goods for the consumer.

The USSR Council of Ministers State Committee on Pricing has allowed those who purchase with hard currency the right to independently set retail prices in cases where the imported goods do not have a price list. But here, in connection with the absence of coordination and control we are heading toward complete anarchy.

The price set for French deodorant in Shelkov is five rubles and at Orly, three rubles. French nail polish, on the contrary, is sold in the first city at three rubles, but in the second at five. Romanian compact automobiles under the make of "Dachia-131" cost 9,300 rubles in Gorki, 7,900 rubles in Suma, and 7,400 rubles in Cheboksary. Autos with the make of "ARO-244" cost 9,000 rubles in Cheboksary and 14,500 in Gorki. There is no doubt that strict control, and a differential hard currency coefficient is simply essential here.

When We Return Free of Charge Nine Out of Ten Irons

The direct links and barter operations of our enterprises with organized countries who are members of CMEA are causing a serious upset. In my view, there is also complete anarchy and loss of control in this area. Many enterprises, in the implementation of barter operations are coming out with their own understanding of profitability, which is based on domestic retail prices, and in calculating their gains they are not considering the correlation between our prices and world prices, resulting in considerable losses.

If we take our own retail prices, for example, then for one pair of imported jeans valued at 100 rubles, we need to sell ten electric irons at ten rubles each, whereas at world prices the value of one iron is roughly equal to the price of a pair of pants. This means that we are practically giving nine irons to a foreign firm free of charge and at the same time are creating a still greater deficit of goods in our domestic market.

Who then is being denied access to this "profitable" cooperation? We are the only ones. The foreign trade organization "Interpel'ts" (GDR) reports that footwear enterprises in the republic are raising the question of significant cutbacks in the delivery of shoes to the USSR, according to the contract which ends in the current year, with the "Raznoeksport" Association. One of the reasons for this is the purchase of shoes by Soviet enterprises directly at two to three times higher a price than was agreed upon by "Raznoeksport." So we ourselves are taking the "step" and our own legs are raising the price of imports.

Despite world practice, which is testimony to the extraordinary profit of specializing in foreign trade, a much greater unhealthy tendency is appearing in us, such as the striving to involve ourselves to the fullest with the broad nomenclatura of goods even when this absolutely does not conform to the profile of basic work. Such foreign trade organizations as "Traktoreksport," "Stankoimport," "Energomashineksport," "Avtoeksport," and others are involving themselves in imported footwear, clothing and other consumer goods for the labor collectives of their enterprise. This leads to what was clearly shown by the example of the aforementioned "Interpel'ts." Similar "independence" by a labor collective from an enterprise, is done at considerable price, like, the state as a whole, however.

Not Merchants, But Providers

After the reorganization of foreign trade, the function of our enterprise "Raznoeksport," a basic supplier of imported goods for the consumer, changed. If previously we tried to purchase at an advantage fashionable and contemporary goods—which our own industry could not sufficiently provide—for our domestic market, then now we will take anything that is offered. We are spending hard currency on soap, laundry detergent, toothpaste, shoe polish, shoe laces, and toothbrushes. That is to say, on things that our industry should be producing (and indeed has produced!).

We are buying in great quantity processed and fresh vegetables, even potatoes, many tons of which remain unharvested here. The role of foreign trade is humbled before a supply organization, covering up the miscalculations of Gosplan and other organizations as well as our mismanagement and carelessness of many officials.

Moreover, "Raznoeksport's" move into the the USSR Ministry of Foreign Trade system has further aggravated a problem. The monopolistic right to discharge hard currency has arisen with this organ, which for all practical purposes is one individual, at once the customer, the buyer, and the consignee; and given the presentation of the import complaint immediately to the foreign firm on the side of the base, who is a member of "Raznoeksport," and is still both the plaintiff and defendant, which, in all respects, is illegal.

The association becomes for the most part illegal. Its staff is discharged, the swelling of many experienced and principled workers is observed. And indeed it is this very "Raznoeksport" that should assist enterprises in spending "with the head." Alas, it cannot manage with this function at this time.

These are only a few of the reasons for our failures in foreign trade. I think that this is the consequence of the mistakes permitted and miscalculations during the reorganization of foreign economic activities. As quickly as possible we need to remove them until we can take care of our multi-billion ruble losses. Once again we should carefully examine the place and role of foreign trade associations in the system of foreign trade, imposing

upon them tighter reciprocity with enterprises and departments who have obtained the right to conduct business in the foreign market.

From the Editor: Publishing this material, we understand, that the author will find those who disagree. We are prepared to continue the discussion.

Changes in Foreign Investment, Joint Venture Operations Discussed

90UF0529A Moscow PRAVITELSTVENNYY
VESTNIK in Russian No 34, Aug 90 p 4

[Interview with USSR Chamber of Commerce and Industry Presidium Chairman V. Malkevich conducted by PRAVITELSTVENNYY VESTNIK correspondent V. Kirillov: "New Boundaries of Cooperation"]

[Text] In recent years there has been a notable expansion in the foreign economic, scientific-technical and trade relations of the USSR with foreign countries. For the purpose of giving more extensive aid to the country's enterprises and organizations which have received the right to enter the foreign market the USSR Chamber of Commerce and Industry (USSR CCI) has implemented a structural reorganization. Specifically, 14 regional departments of the Chamber have been created on the territory of the RSFSR. Aside from the republic chambers and regional departments, the make-up of the USSR CCI today includes also 7 all-union foreign economic associations, 17 associations for business cooperation, and a number of joint enterprises and cooperatives.

Our correspondent talks with the chairman of the Chamber's presidium, V. MALKEVICH.

[Correspondent] The statistics testify to the rapid growth of joint enterprises. In 1987 there were 23 of them registered, in 1988—168, and today there are already around 2,000 of them. However, the effectiveness of the joint enterprises is still far from what we would like. Moreover, our Western partners have already begun to show signs of disenchantment in their evaluation of the cooperation. The chairman of the Deutsche Bank advisory council, V.-F. Christians, has even stated that the stake placed on joint enterprises was doomed to failure from the very beginning ("PV" No 33, "To Take On Loan?").

[Malkevich] Most definitely I would like to emphasize the fact that joint enterprise must continue to develop and become a more significant component part of our reformed economy than it is now.

For the present, there really is an abundance of problems which hinder the development of joint enterprises. These include insufficient development of legislation and of the domestic economic management mechanism regulating their activity; lack of convertibility and unrealistic exchange rate of the ruble; often a low level of training of the managers and specialists in the sphere of foreign economic relations, etc. Most of all, foreign investors are

concerned about the problem of withdrawing out profits. I am referring to the limitations on withdrawing the ruble portion of the foreign partner's profits, which he could if necessary convert to currency and transfer abroad. These limitations could be rescinded, for example, in the production of consumer goods or in some other priority sector of the economy. As we know, capital is always inclined toward reproduction. Therefore, if there were to be such permission, they would not take out "everything in the world". We should not be afraid of this. On the contrary, a large portion of the profits would necessarily be invested in the development and modernization of capacities. This is evidenced by the practical experience of other countries.

In general, if we speak frankly, the creation of joint enterprises in most cases is not our achievement. It is not so much we who sought out [partners], as they us. As a rule, the initiative came from the Western firms. They broke through and are breaking through wherever they see an interest for themselves and a possibility of cooperation. Therefore, the attitude of businessmen toward mixed enterprises cannot be the same.

Let us examine the following detail. We have an agreement with the FRG and France about the mutual protection of investments, which give a guarantee to the enterprises and increase their assurance. And there are more joint enterprises with these countries than with others. However, these are generally small enterprises, and the Western investments are insignificant. Generally they are in the form of equipment. Yet in the relations with the USA, where there is not yet either an agreement on protection of investments or a trade agreement, there has been a radical turnaround, and now they are in first place in the scope of their investments. If, for example, we consider the work only within the framework of the American trade consortium and the Soviet foreign economic consortium, there the investments are planned already in the billions. The readiness of the Americans to do business with us is higher today than ever before. This, specifically, is confirmed by the results of the 13th Annual Meeting of the American-Soviet Trade-Economic Council (ASTECC) recently held in Moscow. This, finally, is evidenced by the fact of signing of a trade agreement with the USA during the official visit of M. S. Gorbachev to that country.

[Correspondent] Vladislav Leonidovich, undoubtedly large investments are a good thing, but it is not for no reason that they say: "Small but mighty." The new generation of Soviet economic managers is exhibiting great interest toward "small business". Small enterprises are beginning to spring up in our country like mushrooms after the rain. Recently the USSR Council of Ministers adopted a resolution on measures for the creation and development of small enterprises.

[Malkevich] Small technically well-equipped enterprises really do have considerable advantages. They are capable of introducing technological innovations more quickly and flexibly, they respond to changes in demand, they

meet the needs for small-scale and piecemeal production more effectively, and they ensure the more effective application of free labor resources, especially in small cities.

In connection with this, the Chamber is expanding contacts with the USSR Union of Small State Enterprises, the Association of Small Enterprises, the Small Enterprise Section under the USSR Exporter Association, and the International Center for Development of Small Enterprises. An example of the active work in this direction may be the activity of the Committee on Small and Medium-Sized Enterprises, which functions within the framework of the American-Soviet Trade-Economic Council.

In May of this year our delegation participated in the World Assembly of Small and Medium-Sized Enterprises, held in India. In June we hosted in Moscow a delegation from the Chicago Businessman's Club, which unites 1,100 small and medium-sized enterprises from the state of Illinois (USA). I believe that the activation of such contacts and the familiarization with foreign experience will significantly enrich our practical application.

[Correspondent] We know that the Chamber gives primary attention to the question of the conversion of military production. The Soviet "Conversion-90" exhibit which was recently held in Munich, one of whose primary organizers was the Chamber, demonstrated the capacities which enterprises in the defense complex have at their disposal. What may be the forms of participation of the USSR CCI in the conversion?

[Malkevich] These forms may be most varied. It may be the participation in reprofiling enterprises (where this expedient) for the output of consumer goods and equipment for their production. It may also be giving consultative services, specifically by means of realization of special marketing programs of cooperation in improving products which are already being manufactured to meet the demands of foreign clients, as well as other forms.

We may expect that the conversion of the defense sectors will be accompanied by the liberation of large production capacities. At the same time, today in our country there are practically no clients capable of effectively utilizing these capacities, referring to their high technological level and complexity of the developed technology. Working in conjunction with interested organizations, the Chamber is presently developing variants for the application of these production means for manufacturing products based on orders and technical documentation of foreign companies.

One of the major resources of conversion consists of utilizing the scientific-technical achievements for civilian needs, including for export deliveries. According to the existing evaluations, in the USSR a dollar invested in the SDI program yields \$12 in profit in the civilian

sectors. Scientific-technical developments may bring currency income and may help the country obtain the production necessary for it.

We have at our disposal a huge mass of non-introduced developments, which are quietly dying on the academic shelves. This, in essence, is criminal, like the killing of a person, for example. Yet there is a demand for these developments abroad, and they may serve as the contribution of the Soviet partner in the creation of joint enterprises. Such enterprises have already been created in Western Europe and, for example, in Israel the country's business circles and leadership have expressed an interest primarily in this sphere of cooperation, emphasizing the capacity of Israeli business for commercialization of our scientific-technical developments.

[Correspondent] In my opinion, leasing deals may also be of some benefit to our enterprises. What can we say about this form of business cooperation?

[Malkevich] Leasing makes it possible to utilize up-to-date machines and equipment in the production sphere without the involvement of currency funds, to assimilate current methods of work on such equipment, and to increase the level of training of specialists. Leasing is a sort of rental. In 3-4 years of leasing equipment you pay for 40-50 percent of its cost. This, you must agree, is more profitable than reimbursing its full cost.

At the same time, in essence you do not always need to own [this equipment], because in 5 years it may turn out to be a burden and become obsolete and worn out. Thus, having paid less than half the cost, you will have the possibility of renovating the active portion of your fixed capital. This is also an advantage. If you have no currency, then the payment of leasing expenditures may be compensated with deliveries of goods.

In the spirit of the demands of the times, a specialized leasing company has been created within the structure of the V/O "Vneshekonomservis". An agreement has been concluded on cooperation with the XO "Bulgar Leasing", which is a member of the European leasing federation "Lizevro". In other words, there is access to the international network of leasing companies. In short, the USSR CCI is extensively introducing leasing into the practice of economic relations of our enterprises.

[Correspondent] You have touched in passing upon one of the aspects of activity of the all-union association "Vneshekonomservis". A year has passed since it has been created. What are the first results of its work?

[Malkevich] By orders from Soviet organizations, this association has provided over 1,500 consultative-mediation services associated with seeking partners abroad for various directions of cooperation, including also for the preparation of foreign economic contracts and agreements, signing contracts for export and export of various goods, and implementing barter operations.

Over 30 seminars have been conducted in various cities throughout our country for the purpose of training specialists in the national economy in the field of foreign relations. A lecture course has been organized on the basics of foreign economic knowledge: "Profession—commercialist". On the basis of this course, methodological materials and a series of video cassettes have been prepared for dissemination to interested organizations and enterprises.

The "Marketing Service" company has been formed within the association for the purpose of expanding services to Soviet organizations in the study of world markets for various commodity groups.

[Correspondent] Along with giving practical aid to enterprises in the foreign economic sphere, the Chamber devotes great attention to informational provision of enterprises. It is no secret that the shortage, and sometimes the total absence, of information necessary for evaluation and analysis of potential sales markets and for the selection of partners does not allow enterprises to fully utilize the methods of export marketing and places them at a disadvantage as compared with their foreign competitors. What is the Chamber doing to correct this situation?

[Malkevich] The USSR CCI is actively engaged in the organization of informational exchange with the chambers of commerce and informational organizations of foreign countries. To achieve such exchange we are creating our own data bank—"Partners". It contains information on Soviet enterprises and organizations wishing to establish business contacts with foreign partners, information on their export-import activity, on the creation of joint enterprises with their participation, etc. At the present time, software and operational documentation have already been developed for this data bank. It is currently being filled with specific data on Soviet enterprises and organizations. All this will allow us to ensure equivalent exchange of analogous information with foreign informational systems and data banks for the companies and organizations of France, Austria, Hungary, the FRG, Poland, Finland, the Netherlands, Italy, Bulgaria, Japan, etc. This already is not bad.

We are creating a network and now will be not only the recipients, who only accept information, but also the donors. Thus, we are beginning to solve one of the most important problems, removing the biggest complaint which we often have occasion to hear from enterprises regarding the informational shortage. I would like to emphasize the fact that the structure of the "Partners" data bank was developed in accordance with the wishes and informational needs not only of Soviet organizations—the Chamber members, but also those of foreign users. This will allow the Chamber to obtain the necessary analogous information from foreign partners without any currency expenditures, and to disseminate it in the republics and regions.

Along with the well-known Chamber publications, DELOVYYE SVYAZI, MERKURIY, and PRY-AMYYE SVYAZI, we have embarked upon the publication of new informational-reference publications whose ultimate goal is to seek partners on the foreign market, to establish direct ties with them, and to satisfy the various demands of the Chamber members.

Taking into consideration the importance of this direction, the USSR CCI has adopted a resolution on the development of informational-publication work and defined changes in the make-up of informational materials, and the order of their publication and dissemination. It has outlined measures for improving publication activity and for strengthening the Chamber's ties with the mass media in our country as well as abroad.

[Correspondent] Among these measures, perhaps, we may mention also the establishment of stronger contacts with PRAVITELSTVENNYY VESTNIK?

[Malkevich] We are ready to give the PV readers the most varied information on the Chamber's activities. We will gladly answer any of their questions.

Problems of Soviet Investment Abroad Analyzed

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in Russian No 6, Jun 90 pp 124-131

[Article by A. Belov: "Soviet Investment Abroad"]

[Text] The 1980s were characterized by an investment boom in our country's foreign economic activity. While attracting foreign capital, the USSR Government took up the path of formulating international law regulation of these problems. When it came forward with the initiative to conclude intergovernmental agreements with foreign states to encourage and mutually protect capital investment, the USSR Government found broad support for this in many foreign states. In the space of 2 years talks were conducted and such agreements have already been concluded with nine states: England, France, Belgium and Luxembourg, Finland, Canada, the FRG, Austria, the Netherlands, and Italy. The agreements are subject to ratification. Talks are also underway to conclude similar agreements with Switzerland, Spain, Sweden, Kuwait, the United States, and a number of other countries. The agreements concluded touch all questions of capital investment, including, among others, all types of property and material assets, company contributions, stocks, demand rights based on monetary capital, copyrights, invention rights, trademarks, know-how and firm names, and rights to commercial operations.

The agreements are based on one of the fundamental principles of international trade-economic cooperation—most favored nation status. The governments obligated themselves not to confiscate capital investment by such coercive measures as nationalization, requisition, and other similar steps, except for cases where state

interests demand it and then with payment of compensation in hard currency based on an appraisal of the real value of the capital investment in light of world prices in effect immediately before the confiscation.

The agreements envision an obligation to ensure that investors have unobstructed conversion of payments into hard currency, in particular for profit, dividends, interest, commissions, and other payments.

An important guarantee for investors is the procedure envisioned in the agreements for arbitration of disputes that can arise over paying compensation and its amount where there is forced confiscation of capital investment.

Thus, these agreements not only give new impetus to further development of the USSR's trade-economic and scientific-technical cooperation with the above-mentioned countries, but also create guarantees for making investments in the agreeing states. Soviet investors also acquire the appropriate right to protect their capital investment in foreign states.

Development of "two-way movement" has become more and more pronounced in the investment sphere, although the stream of foreign capital coming into the USSR is larger than the stream of Soviet capital going abroad.

While more than 1,500 joint enterprises have already been built in the USSR with participation by companies from the capitalist and developing countries, capital from Soviet investors in these countries so far has been invested in only about 130 mixed and solely owned companies. These are usually trade companies called on to develop Soviet export and to facilitate purchases of essential output.

We will consider the basic facets of legal regulation of the organizational and economic activity of Soviet investors.

There are three primary sources of legal regulation of the procedures for establishing and operating trade and production companies abroad, and they must be studied by Soviet investors. They are the laws of the USSR, international law norms, and the laws of the corresponding foreign states.

The USSR enactment that regulates the procedures for establishing and operating mixed-ownership societies abroad (ZSO's) is Decree No 412 of the USSR Council of Ministers, dated 18 May 1989 and entitled "Development of the Economic Activity of Soviet Organizations Abroad."¹ It establishes that the economic activity of ZSO's must be directed to the development of Soviet export, supplying our country with imported goods needed for the national economy, and incorporating new forms of cooperation (cooperative operations, securities transactions, and application of progressive technology and management know-how). ZSO's are formed by Soviet state enterprises, associations, and organizations with the consent of higher-ranking USSR ministries and departments and Union republic Councils of Ministers

with due regard for the recommendations of the USSR Ministry of Foreign Economic Relations and the USSR Ministry of Foreign Affairs.

Production cooperatives which are registered as participants in foreign economic relations may form ZSO's with the consent of the USSR Ministry of Foreign Economic Relations and with due regard for the recommendations of the USSR Ministry of Foreign Affairs. The ZSO's that are formed must be registered by the Soviet partners in a special register of the USSR Ministry of Finance.

International legal documents may also relate to the activity of ZSO's. Among them, for example are the above-mentioned agreements on encouraging and protecting capital investment (after they go into force), international conventions on questions of double taxation, agreements on scientific-technical and economic cooperation, agreements on mutual protection of copyrights, and the like.

The norms which directly regulate the procedures for the formation and activity of ZSO's are contained in special laws as well as in the trade and civil codes of the corresponding foreign states.

When they intend to form ZSO's Soviet enterprises and organizations must review a whole set of questions. We give below the main ones, plus a few practical recommendations.

Commerical problems. First of all it is essential to study the marketing of the goods which it is intended to export to the market where the ZSO will operate. This analysis looks not just at the theoretical possibility of marketing Soviet goods in the foreign market where there is a demand for them, but also their ability to compete, both from the standpoint of meeting high standards and the standpoint of cost. It should also be kept in mind that the laws of many countries impose a whole series of exceptionally rigid requirements which must be observed or the article will not be allowed access to the foreign market, for example U.S. legislative requirements for cars, foodstuffs, cosmetics, and medicines to ensure consumer safety.

An important condition for successful ZSO activity in a foreign market is that the foreign partner have a marketing and service network as well as establishing the ZSO's own warehouses, including customs warehouse, and shops where the products can be prepared for sale and serviced.

In all cases a detailed commercial-financial calculation of all expenditures must be made so that trade will be efficient and profitable and have a stable growth tendency.

Selection of the foreign partner is a significant aspect in the formation of a ZSO, if the Soviet investor has in mind formation of a mixed-ownership society. The foreign partner is usually an industrial or trade company. It

must be carefully studied from the standpoints of technical, commercial, and financial dependability.

It is very desirable to personally visit the foreign partner's enterprise and become familiar with its activity on the spot.

It is very important to study the foreign investment laws of the receiving country. Many capitalist countries have prohibitions or restrictions on the contributions of foreign investors to certain sectors of their economies, for example in the spheres of mining, nuclear power, space research, banking, communications, and so on. The restrictions relate to both the amount of investment and participation by foreigners in the management organs of the ZSO being formed. Foreign laws also make serious demands from the standpoint of ecology and public safety and for this purpose impose rigorous requirements on the manufacture of products by establishing various standards.

Trade-political conditions. With most foreign states the Soviet Union has concluded trade treaties and agreements which envision mutual granting of most favored nation status in the area of customs duties and fees and on a number of other matters. This means that goods being exported from the USSR to these countries are charged customs rates in the same amounts as the goods of other countries. But if there is no agreement on granting most favored nation status in trade with a certain country, for example with the United States, then Soviet goods being exported to the United States through the ZSO's that are formed will be subjected to customs charges which make their export impossible. In addition it is essential to know in general which goods are subjected to high customs duties, which are normal, and which can be delivered without paying the duties.

Furthermore, there should be a detailed study of legal regulation of export in the receiving country (licensing, quotas, prohibitions, and the like). We know, for example, of the COCOM lists of so-called "strategic" goods whose export to the USSR is prohibited or greatly restricted.

Financial questions. These include studying both the financial dependability of the foreign partner and the financial legislation of the receiving country, which regulates, among other things, the procedure and amounts of taxation on the activity of ZSO's in general and the foreign (Soviet) investor in particular, including conditions for transferring income out of the country and taxing it. Financial legislation directly influences the profitability of the ZSO. Because ZSO's can be viewed as subsidiary companies of foreign (Soviet) investors, it is essential to study whether the Soviet share in the ZSO will be taxed and in what amount.

Legal questions. These include, among other things, choosing the legal form of the organization, studying the foreign law's requirements for founders, the amount of charter capital, founding documents, the registration procedure, and so on. It is necessary to decide whether

the ZSO will be a joint stock society (company, corporation), limited partnership, or other form. Choice of the form depends on the nature of the ZSO's activities, whether it will perform trade functions or operate as an industrial or industrial-trade enterprise. For this reason it is essential to become familiar with the laws of the corresponding country that regulate questions of the formation and activity of commercial companies. Experience with Soviet investment abroad has shown that Soviet investors have formed two primary types of ZSO's: joint-stock societies (companies, corporations) and limited partnerships. The use of other forms of entrepreneurial activity (full partnerships, "limited-liability" [komanditnye] partnerships, and simple partnerships) are unacceptable for Soviet investors.

For example, the following companies were organized in the joint-stock form: Stanko France in France (machine tools), Teknikon (engineering) in Italy, Teboyl (petroleum) in Finland, and the closed corporation Amtorg Trading Corporation (agent services in trade) in the United States.

A number of ZSO's were organized in the limited partnership form in the FRG, for example Neotayp GmbH (trade in various kinds of equipment), Russholtz GmbH (timber), and Wesotra GmbH (transportation), as well as in Austria—Asotra GmbH (freight shipping and expediting). A number of mixed companies in the form of limited-liability companies have been set up in England, among them Nafta (U. K.) Ltd.

Why are these forms preferred?

The principal features of joint-stock companies are the following:

- the rights of a legal person and separate, independent legal capacity;
- the right, thereby, to conclude transactions, bring or respond to lawsuits in court or arbitration, own property, and dispose of it;
- limited liability for debts; the shareholders are not personally liable for the debts of the company they have formed; their liability is usually limited to the amount of their contribution to the company, expressed in shares of stock;
- management of the company and monitoring of its activity is centralized, that is, concentrated in a board of directors and in the hands of the administrative personnel they appoint. Although the shareholders do elect the board, it cannot directly monitor their activity;
- continuity of the company's existence. As a legal person the company does not cease its activity when a shareholder dies or his stock is transferred to third parties.

These are exactly the features that best suit the needs of investors.

Alongside these general advantages private joint stock companies, closed corporations, and limited partnerships in turn have their own preferred features.

These are the absence of a public subscription to stocks (shares) and public reporting, simplified management procedures, restrictions on transfer of stock (shares) to third parties, and various others.

As for the amount of the contribution, it must be kept in mind that the laws of some countries limit the amounts of contributions by foreign investors to companies being set up, keeping the controlling stock (share) interest for their own national companies.

For example, according to Spanish law authorization for foreign participation in the capital of a company in an amount greater than 50 percent of charter capital must be given by the national council of ministers. The law also envisions state monitoring of the company's activity if the foreign investor has a controlling stock interest as the result of obtaining the above-mentioned authorization. In this connection the question arises of the need to secure the interests of a Soviet participant in a ZSO if his contribution is significant, but less than 50 percent. In such cases it is advisable for the charter to contain a provision that all decisions on fundamental areas of ZSO activity must be made unanimously or with the participation of the Soviet partner (charter amendment, stock transfer, cessation of operations, questions of receiving and giving credit, conclusion of large transactions, increasing capital, and basic questions of this type). It is also possible to enlist several Soviet partners for the ZSO, in this way ensuring a controlling stock interest.

Foreign legislation contains norms that establish the minimum amount of charter (share) capital necessary for a ZSO to begin operations. The laws of the U. S. states are quite liberal in this respect and the minimum corporation capital is very small, usually in the range of 100-1,000 dollars.

Some countries do not establish a minimum amount by law. The capital is determined by the partners in an amount necessary for achieve the goals of the company. England is an example.

When reviewing questions of establishing ZSO's it is also necessary to study the provisions of laws relating directly to how they are founded. This includes legal provisions on founders, the content of the founding agreement and charter, and registration procedures.

The laws of foreign states set minimum numbers of founders. In the FRG, for example, there must be at least five, and in England and France at least seven. One must also become familiar with the requirements for the content of the founding agreement and charter. These documents have different names in the various countries. The primary document is usually the charter, but in setting up companies or corporations in England and the United States two documents are prepared—the charter agreement (United States) or memorandum (England)

and the so-called by-laws. The agreement and memorandum control all questions concerning the goals and legal capacity of the company and are meaningful for third persons, while the by-laws envision questions of relations within the company: the procedures and periods of calling general meetings, the board of directors, decision-making, and the like.

Most of the capitalist countries have permissive (licensing/registration not mandatory) procedures for formation of companies, not an authorization procedure as we have. In other words, formation of companies there does not require the authorization of certain competent bodies, but when they are registered the founders' compliance with legal requirements is checked.

A number of countries have authorization procedures and the consent of competent bodies is required to form ZSO's.

To successfully carry out all the tasks involved in preparing for and conducting negotiations with a foreign partner, Soviet investors need the proper organizational support, which should be as follows:

1. Formation of a special group at the Soviet investor's enterprise, consisting of representatives of management and the technical, commercial, financial, and legal services.

This group must, among other things:

- study Soviet rules in order to obtain the necessary authorizations to form the ZSO;
- prepare technical-economic substantiation for subsequent discussion with the foreign partner;
- substantiation and description of all aspects of the operations of the foreign partner;
- prepare its own positions or texts of founding documents for discussion with the foreign partner.

2. In the first stage of negotiations the following should be requested from the foreign partner:

- the texts of laws that regulate questions of the formation and operation of the corresponding companies in the particular country;
- considerations concerning the form of the ZSO—joint-stock company, limited partnership, or other form of trade or industrial operations;
- drafts of founding documents;
- a draft of the technical-economic substantiation (marketing, financial expenditures, the composition and amount of capital, and the like);
- immigration law regulating foreigners arriving in, residing in, and leaving the country.

3. A competent local attorney must be enlisted to work on preparing all legal issues. Payment for his services is

coordinated with the Soviet participant. The job of the Soviet attorney is to check the foreign documents being prepared to ensure the interests of the Soviet investor in them.

4. The participants can formalize the results of preliminary negotiations by signing an agreement or protocol of intentions. This document, which should be a record of the parties' negotiations, usually sets forth the fundamental intention of both partners to cooperate in the formation of a ZSO, indicates their mutual understanding on questions of the goals of its operations, and provides for preparation of the founding agreement and charter as well as other issues that have arisen in the early stage of studying all questions of forming the ZSO.

The content of the document of intentions does not have to be in the nature of a preliminary or provisional or other agreement which could be interpreted as a legally binding document. It is desirable to stipulate that the protocol has no legal ramifications beyond general intentions. Otherwise the document of intentions may, in case of a dispute, be recognized as a legal transaction with all the negative consequences that flow from this, including a lawsuit for losses.

Cautious Approach To Foreign Credits, Imports Urged

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VESTNIK in Russian No 33, Aug 90 pp 10-11

[Article by A. Shabalin, candidate in economic sciences and docent: "To Take On Loan? On Our Foreign Indebtedness, Export Capacities, and New Western Credits"]

[Text] It seems today everyone is concerned with the search for a way out of the crisis situation in our economy. And it is not just scientists, deputies, and professional economists. Successful Western businessmen, politicians, and even emigrants—persons of Russian extraction and former Soviet citizens, are giving advice. It is particularly interesting to read their works, as they have a better knowledge of our order—both the former and the present-day one.

The announcements of our leaders and creators of reform to the effect that there are no simple solutions to complex problems do not satisfy us. The proposed measures are unpopular. The discussion about the inevitable difficulties turn us away from reform. The people avidly criticize them, stating that the entry into the market is not necessarily accompanied by sacrifices and deprivations. On the contrary, in our country [this entry] may occur by making the life of the people better instead of worse.

On this background, we value proposals which promise a rapid, and most importantly a tangible, resolution to the burning problems, and these proposals cannot be put off any longer. One of these is to take out loans. To take out loans and to "buy up imports". Today this is a widely held point of view. A more long-term approach is to

build ourselves into the world economy, to "enter" the common European house, to convert military production and to develop the export sector. However, all this will still not yield a quick practical result.

It has even been computed how much we must borrow. As the well-known Soviet economist, USSR People's Deputy N. Shmelev, maintains, all our sorrows, all our waiting lines, tears, shouting and discontent cost no more than \$20 billion in world prices. This is under the condition that import goods costing \$1 in our domestic trade brings in a minimum of 10 rubles. Consequently, imports in this sum may cover all our excess funds which are not backed by commodities, and which are computed according to various sources as being from 160 to 200 billion rubles.

The question arises: From whom can we get such money? Naturally, from the West. We know that there a movement supporting perestroika in the Soviet Union has been formed and is expanding. How to give practical aid to our perestroika? These questions were discussed at the EEC meeting in Dublin, and then also by the top leaders of the 7 leading Western capitalist states at a meeting in Houston. We have no cause to doubt the sincerity of the advice and the desire to help expressed by many political leaders. This is evidenced by the "Houston Economic Declaration", and by the subsequent visits to Moscow by Commission of European Communities Chairman G. Delors and International Currency Fund Managing Director M. Kamdessus.

At the same time, the positions of leading capitalist states on questions of giving aid to the USSR differ significantly.

The USA and England are ready to supply trained specialists to study the ills of the Soviet economy, to prepare recommendations for improving the banking system, and to give aid in formulating the tax administration and in training managers. However, for now they are refraining from large material investments. The Americans make the issuance of credits conditional upon the adoption of laws in the USSR on the restoration of private property, on freedom of exit, and on the reduction of expenditures for military purposes and aid to Cuba, along with many other conditions.

M. Thatcher insists that the USSR first implement effective reform in a transition to a market economy. There is a widespread opinion that it makes no sense to give credits for buying consumer goods, which will disappear from the store shelves in a few days.

However, there are countries which are ready to make significant material investments in the modernization of our economy without tying them to reforms in our country, and which are also ready to assume a certain risk. This is primarily the FRG, which is ready to grant credit in the sum of 5 billion in West German marks. France, Italy, and Turkey are also expressing a desire to help perestroika in the Soviet Union with their material resources.

Thus, although the largest financial institutions—the International Currency Fund, the World Bank, and others—have not yet gone into action, there seems to be no shortage of credits. And now we are coming closer to the question: Should we take the credits or not?

It is difficult to give a synonymous answer. What does historical experience tell us? It says that there are many in this world who owe each other (this seems to be a normal condition) and have no intention of repaying. The foreign debt of Mexico and Brazil has exceeded \$100 billion. The USA is also a major debtor.

Fortunately, other indicators are closer to us. The foreign indebtedness of the Soviet Union is estimated differently, ranging from \$40 to \$50 billion. Is this a little or a lot? That depends on how you look at it.

In 1985 the indebtedness of South Korea comprised over \$40 billion with a deficit in foreign trade. However, as the president of South Korea Roh Tae Woo believes, today the question of repaying the debt presents no problem. Now let us take another example. In 1971-1987 Poland received credits in the sum of \$47 billion. We know that money is not loaned for nothing. It has to be paid for. That is, the debts are not only repaid, but repaid with interest. So, Poland has already returned \$50 billion towards repayment of its debt and interest, and still owes around \$40 billion. For a number of years the country has been paying and at the same time waging a humiliating struggle for various extensions on repayment of the debt, since if it tries to repay [all] the debts, this will lead to bankruptcy of the economy and the people.

Does this mean that we should not make use of international credit under any circumstances? Not at all. However, in this case we must be ready to make sacrifices and to remember the sources of income. Perhaps we should tighten our belts at first if we do not want to pay double or be in debt all our lives.

Practical experience shows that far from everyone is capable of this. The source of coverage of debt in most countries is export, or more precisely the export which exceeds the import. Gold, currency reserves, export of services and work force are all important. However, in most cases it is the export of goods which plays the decisive role.

Today many are viewing the South Korean phenomenon, which has delighted the world and filled it with electronics, automobiles and other goods. However, not everyone knows that the life of the Koreans was permeated with a sort of export ideology. This was the practical activity of companies struggling under conditions of stiff competition to gain at least a foothold on the world market. This was the readiness of the population to reconcile itself at a certain stage with poverty of their own market for the sake of export, sending the best goods to other countries. There is a complex combination of economics, politics, morals and social consciousness here. And, it seems, the simple but holy truths that debts

must be repaid with first priority have an important significance. For this it is necessary to sacrifice everything, including the best goods.

Another one of the so-called "South Asian tigers" has similar secrets for its growth. This is Taiwan, which has literally charged into the world elite.

We have not formulated such a general movement for export, a sort of export ideology, neither at the level of the highest state organs, nor at the level of the enterprises. Moreover, there is a widespread opinion in public consciousness that we live poorly because everything is going abroad, we are spending a lot to help and to "feed" practically the entire third world.

Of course, there is no shortage of political declarations regarding the need for strengthening the export sector. Serious documents were adopted at various times, such as the USSR Council of Ministers resolution entitled "Strategy of USSR Foreign Economic Relations to the Years 2000-2005" and the program for development of the USSR export base to 1995. Few remember these documents today. The effort to increase the export of scientific-intensive production through the participation of the Integrated Program for Scientific-Technical Progress of the CEMA Member States, a unique analog of the West European "Eureka", has proved unsuccessful.

As it turned out, all this was mere paperwork. In the practical plane, export was never a priority matter for us. Ukrainian Council of Ministers Chairman V. A. Maslov, speaking at the CPSU Central Committee Plenum, argued for reduction of export as a means of replenishing the domestic market. And in fact, we repeatedly used this method to solve our domestic problems. The latest example is the removal of oil from export in order to ensure gathering of the harvest. In the business world such solutions are almost unthinkable, and especially in the practice of inter-state relations. All this ultimately deals a blow to our country's prestige.

How can we demand priority export thinking from simple people who are gripped with a severe shortage? Our newspapers are full of accusations—why are passenger cars, refrigerators, televisions, and irons being sold abroad when there is a shortage of them here? The USSR Ministry of the Metallurgical Industry insists that we cannot sell metal scrap because the metallurgical plants are on the brink of stopping production.

It has become known from numerous publications that we cannot sell copper, aluminum and titanium alloys, since these are strategic raw materials. We cannot sell sunken and burned timber, hides, entrails, horns, etc. Let it sink, rot, spoil, rust and clutter up the environment, but we cannot sell it, because that would be detrimental to state interests. This list may go on and on. We cannot sell anything that we need and which is in short supply. Of course, with this logic we will never win over the world market. Meanwhile, we leave the question aside: Do we want to have imported clothing, shoes, medical

equipment, medicines, disposable syringes, and up-to-date machine tools, if we do not want to sell anything? And by taking on new loans today for the solution of current problems, what are we counting on in the future, how do we intend to pay, from what income?

There is only one answer. With the irresponsibility of our ministries and departments and the absence of export directionality in the work of industry, with the anti-export attitude of the population, it is extremely dangerous to take out billions in credits for consumer goods. We will not be able to repay them. We will not have the means, nor will we want to. As yet, we have no serious export stockpile in the processing industry, and despite the conversion it is unlikely that one will appear within the next 2-3 years. Two commodities—oil and gas—comprise around 40 percent of all export.

The decline in prices on these goods on the world market in recent years has dealt a tangible blow not only to foreign trade, but also to our economy as a whole. The income from sale of oil and petroleum products to the developed capitalist countries, which in 1984 comprised 13.6 billion rubles, has declined to half that amount in subsequent years. The export-import ratio has changed significantly. While in 1984 the export exceeded import by 9 billion rubles, in 1989 we sold 3.3 billion rubles worth of goods less than we bought. The negative development is continuing, and in 1990 we see a growth in import purchases with a significant reduction in income from export. According to the results for the [first] 6-month period, this difference comprised 6.4 billion rubles.

Trade with the developed capitalist countries gives a clearer understanding of the possibilities of obtaining freely convertible currency. The negative trade balance with them comprised 1.65 billion rubles in 1988 and 4.1 billion rubles in 1989, i.e., during these years the export did not create reserves for reducing indebtedness. Other sources had to be employed for its repayment.

According to the data of the International Finance Institute, by the end of this year the USSR may find itself on the brink of insolvency, considering the fact that its indebtedness has increased to \$57 billion. In evaluating solvency, we must take into consideration the sum of annual export in freely convertible currency, the currency reserve and the gold reserves, referring to the fact that they must cover 100 percent of the sum of the debt. Specialists believe that export will be capable of covering only 63.7 percent of the foreign debt, while all sources taken together will cover only 87.5 percent. This does not take into consideration the need for paying for current import, without which the country simply cannot get along.

It is true, there are other more optimistic evaluations of our currency reserves (\$14 billion) and gold reserve (\$28 billion). We will hope that Chernobyl will not be repeated. However, we cannot insure ourselves against earthquakes or crop failures. In this connection, despite

all the difficulties, it is unlikely that the most critical time has come now for us to make use of the gold currency reserves, letting them go for the import of consumer goods. (Taiwan's currency reserves are \$75 billion. Nevertheless, it has no intention of placing these reserves into circulation there, but rather continues to increase them by means of trade expansion).

To our traditional indebtedness in freely convertible currency to the capitalist countries in the late 80's we added indebtedness to Hungary, the GDR, the CSFR, and the SFRY. On the whole, we owe around 5 billion transfer rubles to the European CEMA states. There has been a reduction in goods turnover with these countries primarily because we have nothing to sell. Even with reduction in the volumes of trade, we will not be able to avoid an imbalance, and as a result—the formation of indebtedness.

Where is the way out? None of the specialists flatter themselves with the notion that after a certain time a strong machine will go into operation in our country, generating competitive goods and currency. Even if these are very high quality goods, thanks to the participation of high technology sectors of the defense complex in their production, it is unlikely that we will be able to seriously displace the capitalist firms on the market with our machine tools, electronics and automobiles.

Today the portion of machine building production in the volume of export to the West comprises 1-3 percent. And therefore it is obvious that the primary procurers of currency will remain the "old men"—the oil, gas, and lumber sectors. However, the capacities of the oil industry are at their limit. We should not hope for an increase in oil extraction as an additional source of currency. Out of 607 million tons of oil produced in 1989, 127 million tons were exported. If we try to resolve our indebtedness today by means of increasing the export to 150 million tons annually, which is unlikely, then at the current prices for oil and under the condition that the indebtedness will not increase, we would need around 20 years to accomplish this. If we accept the proposed loans in order to achieve a significant increase in consumer goods, repayment of the incurred debt would require more than our current annual volume of oil production.

All international experience shows that it is preferable to take credits for deliveries of equipment, especially current technology, with anticipation of high quality of production and ability of the products to compete, which would ensure their export. Hungary, the GDR and Poland also tried to pursue this path. The list of such states may be go on and on. Nevertheless, they have not been able to create a strong current export sector. The consequences are well known—indebtedness which eats up almost the entire growth in national income, limited capacities for renovation and growth of production, and continuous new loans.

Numerous machine building, light and food industry enterprises and chemical plants have been built in our country with the aid of Western credits. However, far from all of them, outfitted with imported equipment, are able to achieve a high effectiveness and to become earners of currency.

Blatant examples of mismanagement in the application of foreign credits for equipment are well-known in our country. Delays in construction, rusting, obsolescence, and pilferage—that is its typical fate [of this equipment]. The volume of such uninstalled equipment is computed at 6 billion rubles. Unfortunately, even this method of attracting and utilizing loan funds for technology and equipment, which has been well tested in world practical application, does not guarantee the production of high quality goods, the strengthening of the export sector, or the intensification of foreign economic activity. The fate of the famous credits for perestroika—2.1 billion rubles, is characteristic in this respect. They were intended for modernization of the light, food and textile industry. Today these credits have already been almost completely used up. However, there is no return felt from them, either on the domestic or on the foreign market.

Specialists point out one other, more complex, means for attracting production capital in the form of organization of joint enterprises. However, we know that Western businessmen have not rushed to the Soviet market with their capital. There have been 1,830 joint enterprises created with the participation of foreign firms and organizations, and only 500 of them have begun operation. Among them there are a few such as the Soviet-West German enterprise "Lenvest", which produces footwear in accordance with the technology of the famous "Salamander" concern. For now, most of them are being created in the sphere of trade, services, middleman activity, and advertisement.

In the opinion of the senior economic advisor to the U.N. European Economic Commission, Professor Yu. Arskiy, our side's lack of preparation for the organization of joint enterprises presents a serious danger. There are numerous petitions for the creation of joint enterprises based on state enterprises which are currently operating or under construction, and which aspire to use national resources in huge volumes with rather paltry investments of foreign currency. The overall price for failure of such projects which are not well planned, as determined by experts, comprises around 100 billion foreign currency rubles. Acting in this manner, instead of attracting foreign capital, incompetent but persistent newly emerged businessmen may involve the country in additional expenditures of currency.

The initial plan—to create effective production with the aid of foreign companies, to break through to the sales markets which they have won, to export and earn currency—has in general not been realized. For now these enterprises are mostly winning the Soviet market.

In the words of the highly regarded West German businessman, chairman of the "Deutsche Bank" advisory council, Dr. V.-F. Christians, the stake on joint enterprises was doomed to failure from the very beginning. No serious Western businessman would risk his reputation on the world market by jointly producing poor quality goods, nor would he give up his clients in the third countries for the sake of doubtful mixed enterprises with the USSR. Thus, this source of earning currency, which is so necessary for repayment of debts, is also rather ephemeral.

So, is it worth it for us to go into debt? Unfortunately, this question is asked by too few people today. On a background of unrestrained demands to take on credit, to import, to fill the store shelves and thereby to save the market, the country and perestroika, there are not many who dare to express their point of view. The decisive position of N. I. Ryzhkov at the 1st Congress of USSR People's Deputies—to stop our continued slippage, since we are already beyond the "red line" of indebtedness—does not receive wide support. The Western billions tempt us as the magic wand which will save us. All of the preceding experience tells us that we were unable to utilize [these credits] wisely. The well-known and well-studied experience of our close neighbors calls us to caution. The good life at someone else's expense has yet to be achieved. Dependence and the unjustified growth of consumer appetites may turn into an "import plague". And ultimately it may work against the people and against perestroika...

Proposals To Avert 'Brain Drain' Viewed

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[Article by Vladimir Razuvayev: "Greenbacks for Grey Cells"]

[Text] As long as the debate continues in the Soviet Union over the issues of democracy and a market economy, as long as efforts to effect a change in the political system are strained, as long as the crisis in the economy is not resolved, as long as there are strong national passions and heated debates over the ideas expressed by Colonel-General Makashov and former Major-General Kalugin; as long as all this is taking place, hundreds of thousands of people will continue to leave the country. Emigration is on the rise. Sociologists predict that when the law on free emigration is adopted, not long thereafter millions of people will leave the country. It is very possible that the Turks and Yugoslavs who hold the manual labour jobs in developed European nations will soon begin to feel competition from Soviet immigrants.

Emigration is also on the rise qualitatively. In addition, it is not specialists on scientific communism or the history of the Soviet Communist Party who are seeking happiness in the West. It is people who make up the

intellectual potential of the country, specialists in electronics and computer programming, theoretical physicists and biologists. According to official statistics, last year the Soviet Union lost approximately 70,000 scientists and engineers. Those who leave are those who feel that even in the Western environment of fierce competition they can find their place under the sun. One can call into question their human qualities or deny them the right to consider themselves patriots, but one cannot deny that the "brain drain" has become one of the dangers threatening the future of the Soviet Union.

The democratization of the political system and the transition to the principles of a market economy are not goals in themselves or abstract categories. Democracy and a free market are needed in society for it to function normally and even more so, for it to prosper. However, it is possible to set up a democracy and a market form of economy and still remain on the periphery of the world economy. The experience of several Latin American countries is representative of this phenomenon. A market economy has existed in Latin America for some time, and democracy has also taken root. However, a surge in prosperity is not foreseen in the near future. There are several reasons for this, including a lack of intellectual potential due to brain drain which is now gaining strength in the Soviet Union.

Against the backdrop of rising emigration among the intelligentsia, those scientific collectives in which instances of emigration are rare if not non-existent, are becoming more the exception than the rule. This is something that most certainly deserves our attention. We talked with the director of one such organization, the Centre for Collective Use of Analytical Equipment, Vadim Rakhovsky, D.Sc. (Phys.-Math.), on how to avert the brain drain in the Soviet Union:

"Why is the technical intelligentsia leaving?"

"I think that there are several reasons for this. Among them is of course the desire to provide a better future for their children, to give them a good education, as well as the domination here of the scientific bureaucracy and a number of other issues closely associated with the policies in the past decades in the nation's history.

"Having talked with young scientists who have either emigrated or who plan to leave, I realized that the general disorder in the country and other deficiencies associated with our system are not the main motives behind the desire to emigrate. Of course, they have grown tired of the disorder in the country, but the reason they leave the country is that they cannot find satisfaction in their work. And so they go to those countries where such problems are not only understood, but where they have long ago been resolved and where researchers are provided with convenient, comfortable working conditions."

"I was told that in the 25 years that you have headed first a laboratory and then a research centre, not a single colleague of yours has left for the West. However, if one

takes into account their level of qualification and ability to find work, there should have been a great brain drain in your organization?"

"For a long time now we have sought to create optimum working conditions in our collective. We try to provide the collective with modern equipment and facilitate as much contact with foreign colleagues as possible, both here and abroad. We make sure that people are comfortable working where they are and we make sure their level of pay and education is good. We pay close attention to the organization of labour. For example, we don't have any such thing as a strict internal structure divided into departments, laboratories and sectors. Research quotas are formed on a strictly volunteer basis. If someone wants to transfer to another group, that is his choice. Our goal is simple: to create conditions in which leaders—senior researchers—constantly generate new ideas and take care of their underlings, and, simply speaking, try to win them over again and again."

"Scientists in the West not only work in a comfortable and productive environment, but also receive pay which is enormous by our standards. Without providing better material conditions, is it possible to avert a brain drain?"

"The issue is in how one resolves the problem. Let us assume that a qualified physicist in the United States can make about \$4,000-6,000 a month. If one considers the realistic value of the dollar in this country and not abroad (taking into account foreign currency auctions) then we can see that our physicists make 60 to 100 times less. Raising their salaries to the level of their Western counterparts is, at least at the present time, impossible as the state budget just couldn't handle it. But since we live in a country with almost the cheapest labour force in the area of intellectual labour and if there is an enormous gap between the value of the ruble and the dollar, we should take advantage of the situation. My colleagues who have decided to try their luck abroad almost all tell me the same thing: if contacts with their Western colleagues were not the almost impossible task they are now and if, besides their pay in rubles, they could receive, say, \$300-500 a month, they would not want to leave the country. This figure, insignificant by Western standards, in this country amounts to an enormous sum. This money could of course only be received if scientists earned it themselves."

"If the simple solution is earning a little bit of foreign currency, what is your centre planning to do, having this goal in mind?"

"It is, of course, a problem, but not one that is insolvable. Scientific research can be conducted on a contractual basis. Our centre has already taken the first steps towards doing so. We have concluded a contract to carry out some prestigious research work for the major American corporation Perkin Elmer which develops analytical equipment. There is no doubt there that there exists the opportunity to perform analysis services for foreign firms. In assessing the possibilities of such work, one

needs merely know that the cost of analysing the local composition of the surface of hard bodies on the American market would run \$800-2,500. Finally, one must not forget about the income generated by the sale of licences and know-how which our collective has been requested to sell. It is important that the income so generated go not only to the state treasury and the funds of various enterprises, but also go into the pockets of the scientists who worked to create the scientific product that is sold.

"There exists a system in which enterprises which have earned foreign currency can use part of their profits to purchase consumer goods for their workers. It would be wise to introduce this system in scientific collectives and even to pay scientists directly in foreign currency. That would allow them to avoid being in the position of 'poor relatives' when they travel abroad. The sale of our intellectual services abroad is not so unfeasible as it often seems to the majority of Soviet scientists.

"But money is not the only stimulus. My generation of scientists began working when the slogan of the day was: 'Physics is the profession...' and the best gift one could give a visiting American colleague was a volume of Landau and Lifshits. Now everything has changed. I have nothing against the belles lettres and I myself love them, but I would like to see the prestige of scientists increase because today it is at a minimum. We must broaden the contacts of Soviet scientists with their foreign counterparts. It is good to have a feel for the international level of science. If one is acquainted with international scientific developments then one is able to distinguish the strutting, proud scientist who by world standards is no more than a charlatan from the belittled researcher whose works are valued highly in the international scientific community. Being given the chance to report on the results of one's work at an international forum is an effective incentive for scientists to improve on their work. In order to achieve this we must employ many different methods: we must set up exchanges with foreign universities at all levels; establish scholarships to be given to talented youth by universities and major funds from a whole host of countries; encourage competition for grants given by foreign governments and private organizations; broaden personal contacts with foreign scientists and laboratories, and participate in foreign projects, etc. Some might say that this will be too great a temptation, especially for young scientists and that many will remain in the West. But young scientists already avoid work in the area in defence industries. Therefore, if one of them decides to find work in the West, there is no way to stop him by administrative measures. Meanwhile, the brain drain will become a national catastrophe. Thus there is only one solution: we must radically improve the lives of scientists."

The majority of the representatives of the scientific community are in full agreement with the recommendations of Vadim Rakhovsky (with the exception of several economists who feel that paying scientists in foreign currency will only further undermine the already almost

worthless ruble). But how can his advice be put into effect? I am certain the Rakhovsky's research centre can easily manage to earn foreign currency. This is guaranteed by the successful activity of the centre in a wide variety of research fields, from aviation and computer production to ecological issues. But the majority of Soviet scientists do not have such opportunities. And often this is not so much because they lack the intellectual know-how, but because of the limitations in organizational opportunities and technological potential which deprive scientific collectives of the chance to be competitive on the international scientific market.

What ways can the authority of scientists be increased in Soviet society. Administrative measures are not an option and other measures are not feasible. Is society even ready for a radical improvement in the lives of its scientists? Judging by the increasing egalitarian sentiments among a wide variety of social groups, such a prospect is not likely to be greeted with enthusiasm.

I fear that creating a "scientific paradise" in selected scientific collectives in the Soviet Union is simply not possible. I also fear that stopping the brain drain to the West is also not feasible. However, by utilizing all the material and moral incentives available, including creating optimal working conditions for scientists, it is possible to preserve a part of the scientific potential of the country. And if after a certain period of time, the transition to a market economy leads to an economic miracle like the one in South Korea, then it is possible we may see a repeat of the situation in which South Korean scientists turn down cushy contracts in the United States in order to return to their native Korea. As paradoxical as it may seem, without "futile" efforts to create a scientific paradise in selected scientific collectives, such a situation is not possible. There are scientists who are enthusiastic about such an idea. All we need do now is await an economic miracle.

Lithuanian Official on Status of Republic Foreign Economic Activity

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[Interview with Aleksandr Pantsyrev, official representative of the USSR Ministry of Foreign Economic Relations in Lithuania, conducted by correspondent Arturas Makyavichyus Elta: "Export Does Not Like Dilettantes"]

[Text] The comprehensive economic development of Lithuania is impossible to imagine without relations with foreign countries. Today the road to the East is open for our organizations and enterprises. To the West it is blocked by the USSR state border. Anyone who intends to take something over the border must obtain permission from the Representative Administration of the USSR Ministry of Foreign Economic Relations under the

Lithuanian government. Correspondent Arturas Mankyavichyus Elta spoke with representative Aleksandr PANTSYREV.

[Elta] How would you characterize Lithuania's foreign economic relations today?

[Pantsyrev] Although the republic has restored statehood, Lithuania still has no state borders or customs service. Therefore, all foreign economic operations are performed only with the permission of our administration. The decisions of other persons are not legal, and a shipment cannot cross the border. We not only register participants in foreign economic relations and issue licenses, but we also provide services: We give consultations and provide aid in filling out various documents and in understanding certain limitations.

In recent years and months the local organizations have expressed an interest in foreign economic activity. Since 1 April 1989 we have registered around 800 organizations which maintain direct economic ties with foreign partners.

The goods which go for export are primarily lumber and wood products, leather raw materials, food and agricultural products (butter, champagne, vodka), products in light industry (especially textiles), household goods, furniture, televisions, and electric motors...

I might add that our work load did not decline in the months of the economic blockade. On the contrary, the number of those who wished to sell their goods in the West increased.

[Elta] In a little over a year you issued 220 licenses for export. Do you ever refuse to issue a license?

[Pantsyrev] We do not issue licenses for goods which are not included in the nomenclature lists issued by the USSR Ministry of Foreign Economic Relations. At the same time, for example, permission for export of lumber products and chemical goods, almost all consumer goods products and household electrical appliances are issued in the corresponding USSR ministries.

[Elta] You have been dealing with Lithuania's foreign economic relations since 1965. What problems and reserves do you perceive in this sphere?

[Pantsyrev] Lithuania is experiencing an acute shortage of specialists in foreign economic relations. We have few graduates. For example, from the Institute of Foreign Economic Relations or the Academy of Foreign Trade in Moscow, not to mention the Western VUZes.

A second sore point is prices. Beginners stumble on this point most often. Many, comparing the price of their goods in currency and in Soviet rubles, practically jump for joy at their great profits. But what a disappointment it is when they find out that the same goods on the world market may easily be sold several times more profitably. We could present lists of world prices, but we cannot reach that far. In Moscow this is done by a separate firm

under the USSR Ministry of Foreign Economic Relations, "IMFORVES".

Starting next year, Lithuania, like the USSR, will experience great difficulties, because accounting in trade with the so-called former socialist countries will be performed in convertible currency. Then they will buy not what the government says, but what and where it is most profitable.

[Elta] The situation is changing. USSR laws are losing their force in Lithuania. How do you see the fate of the administration?

[Pantsyrev] In all probability, we will be needed for the transitional period. And, I am sure, there will be plenty of work for us to do.

Prospects for Economic Relations with Unified Germany Considered

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VESTNIK in Russian No 35, Aug 90 p 11

[Article by Oleg Yurygin and Yuriy Chervakov, Bonn—Berlin: "The Rules of Addition: USSR—United Germany: Prospects for Trade and Economic Relations"]

[Text] At the beginning of October [1990], the GDR [German Democratic Republic] will announce that it is joining the FRG [Federal Republic of Germany], German-wide elections will take place a month later, and the process of German political unification will be complete. A new important stage of European development will begin. It is still impossible to very clearly say what it will bring to the people of Germany itself and it is also impossible to provide an accurate forecast of how its relations with its neighbors in the common European home will take shape.

Resolution of the German question is not just a political problem for the Soviet Union. To this day, both the GDR and the FRG continue to remain our largest trading partners among socialist and capitalist countries. Their share of the USSR's foreign trade with these groups of countries totals ten and six percent, respectively. Add these two indicators and the result seems to be pretty good after Germany becomes united. But we will not hurry because in fact everything may turn out to be somewhat more complicated. Will we succeed in preserving and multiplying that which has been developed over long years of cooperation between our country and both German States? Questions of future Soviet Union and German trade and economic ties will become the theme of a special trilateral symposium that will be conducted at the beginning of September in Leipzig at the initiative of the Western German Economy's Eastern Committee and its Chairman, Otto von Amerongen.

The importance of economic ties with the GDR are obvious for us. A fifth of all machinery and equipment imported by the Soviet Union comes precisely from there. If you take agricultural equipment, the German Democratic Republic's share is even more weighty—about 40 percent. It is true we must admit that a trend toward reduction of mutual goods turnover has been noticeable since the middle 1980s and it could drop to a level lower than 13 billion rubles by the end of this year, having lost more than two billion rubles as compared with 1986. The primary cause, among a number of others, is perhaps the unfavorable development of oil prices on the world market for the Soviet Union. This has resulted in particular in the fact that our positive trade surplus with the GDR, which still totaled 6.6 billion hard currency marks in that same 1986, became negative and by the middle of this year equaled 3.6 billion hard currency marks.

The development of goods turnover with the other German partner—the FRG—has been increasing for the last two to three years. Last year, it totaled 20 billion

West German marks which is an increase of 25 percent as compared with 1988. This can be explained not only by the favorable situation in the FRG itself but also by the greater openness of the Soviet market.

While talking about how the USSR's economic relations with Germany can develop in the medium and long term perspective, we must also bear in mind a number of objective factors that have appeared in recent years which will undoubtedly impact the process of their development, first of all, the crisis that has struck many spheres of life of Soviet society, also including its economy. It is becoming increasingly obvious that we will not succeed in rapidly overcoming its consequences without assistance from without. In principle, this meets the interests of the West since the crisis that is growing progressively worse may have a destabilizing influence on the situation in Europe.

Furthermore, the disintegration processes in the CEMA which we have recently witnessed will probably result in reorientation of many of its members to the Western system of values. For example, this is already being manifested in the GDR. Evidently, we also have to consider the weakening of those interdependencies which still recently were inherent of this economic group. As a result, the share of these countries trade with the USSR may fall from 60-70 percent to 30-50 percent. Therefore, we will have to solve our problems while increasingly resorting for aid to Western European countries and particularly to Germany which is becoming Europe's economic leader. We must have as a strong Germany a state that is as amicably disposed toward us as possible and especially interested in the USSR's economic and political stability even though this may be due to the USSR's size and proximity. This is possible only on the basis of our countries' rapid economic and political rapprochement and the interweaving of their interests. Many FRG politicians are also actually calling for this.

Having taken these premises as the point of departure, we can assume the presence of two stages in the development of the USSR's and Germany's economic ties. During the course of the transition stage, which from all appearances will last for two to three years and maybe even longer, we must anticipate a significant reduction of the Soviet Union's trade and economic ties first of all with the economic domain that lies within the limits of the current GDR. Closure of some enterprises due to their nonprofitability, the reorientation of others to the FRG and EEC markets, and the transition to trade with us based on payments in convertible currency and at world prices will become the causes of this. There already are cases of refusal of reciprocal deliveries right now. We can also anticipate a weakening of traditional raw material "ties" of GDR enterprises to Soviet suppliers. Possessing the West German mark, they can begin to acquire everything they need on those same world markets. On the other hand, we must consider those favorable factors that have arisen during long years of cooperation, for example, the presence of a developed

raw materials infrastructure, in particular, oil and gas pipelines. This will objectively encourage continuation of established contacts, however, payments in convertible currency will require a quality of work execution that is of a somewhat higher order than it was previously.

Certainly, restructuring of our foreign economic ties with Germany will occur for this reason. The former GDR's share in today's 10 percent will be reduced by about one half at the same time that the share of the former FRG increases up to 9-10 percent. That is, assets not spent by the Soviet customer in the economic domain of Germany's eastern areas will be spent to purchase higher quality Western commodities. However, Germany's total share in Soviet foreign trade will increase and may reach 20 percent or even more.

Right now the world is observing the GDR economy's transition to market principles which is an economic, political, and social experiment that is unprecedented in scale and depth. Right now in the GDR's industry and agriculture, storms clouds are just beginning to thicken and narrow shafts of light are not seen. Among West German economists who are directly carrying out steps to transition the GDR's economy to the market track, there is a profound conviction that its enterprises must maintain and even increase economic ties with its Soviet partners for at least two reasons. First, to prevent the republic economy's final slide into a crisis and thereby prevent a rapid rise in unemployment. About half a million citizens of the GDR are directly or indirectly involved in activities associated with GDR-USSR trade. Second, utilization of the experience of working with Soviet enterprises that has been accumulated in the GDR for subsequent access of the united Germany's industry to the Soviet market.

A unique potential was formed during the years of our cooperation in the German Democratic Republic—almost 300,000 economists, experts, and managers who are fluent in the Russian language and who have a good impression of the specific features of work in the Soviet Union. That is, the GDR's economic domain—and this is the opinion of West German experts—has all the capabilities to become a unique bridge in East-West trade and economic relations. Furthermore, there is a danger that many established ties will be lost during the attempt to more rapidly reorient to Western markets. Later, they will once again begin to seek them and, where possible, restore [them], but with significant temporary delays which will not benefit Soviet-German trade and economic relations.

West German business' interest in the Soviet market and the FRG's interest in stable ties with the Soviet Union exist. It was demonstrated in particular by Helmut Kohl to the Western Allies when he persistently called for the establishment of an economic aid program for our country. While proceeding from this, one could imagine a diagram of the mutual interests of the Soviet Union, the FRG, and the GDR. The FRG has the technology and is getting access to the Soviet market, the Soviet

Union has the market and is obtaining the technology, and the GDR has established channels of cooperation and is using them as a stabilizing factor. Recognition of these interests by all the triangle's participants would make it possible to transition to precisely adjusted practical steps.

What can the Soviet Union precisely undertake for its part? First of all, as soon as possible—events in the GDR are developing rapidly—determine our position with these same enterprises of ours that have economic interests in the development of ties with our partners from the GDR, and later even from Germany. In order to accelerate their search to the maximum extent, it would be possible to establish a trilateral consultative center with a computer data bank in Berlin, for example, where not only the task of finding partners would be solved but that would also provide broad information support and consultations on the entire series of market economy issues.

Incidentally, the Eastern Committee already supports the idea mentioned above. All the more so since a project exchange has been operating in Bonn since February 1990 with a section in Berlin whose card files contain 11,000 West German and more than 7,000 GDR enterprises. The establishment of the exchange has substantially simplified the search for partners. Soviet enterprises could also be included in it if necessary. The FRG for its part intends to establish in the USSR a number of consultative centers in Moscow, Kiev, Minsk, and Leningrad with possible involvement of GDR experts who are in our country. One of its main tasks is the search for those enterprises, including beyond the borders of a united Germany, that could assume the GDR's obligations for deliveries of products to the Soviet Union that are extremely important for us. Two centers—in Berlin and Brussels—will probably be established to coordinate these activities.

It also time to admit that we do not need just credit and foreign technology for our economy's transition to market conditions. The main problem, to which the GDR's experience also testifies to some degree, consists of people and their ability to think and assimilate new conditions. We need a widespread program of perestroika of economic thinking. Something similar is being carried out in the GDR right now and thousands of West German citizens have been enlisted to do this and they have become involved as consultants in practically all elements of national economic management, including in the government. We think that the time has come for us to resort to the assistance of these types of consultants. Without adequate development of the market infrastructure, the Soviet economy can hardly grasp the stream of Western technologies and capital that could be sent to us and could make the West's economic aid program a reality. Will room then still be left for us in the international division of really skilled labor if we do not limit our own role to only raw materials suppliers and energy carriers?

We have already managed to become accustomed to the rapid development of events in the GDR that is often of an unpredictable nature. We need only not forget to be concerned in a timely manner about our own economic interests during these rapid changes. For example, about how and who will defend these treaty obligations in accordance with which GDR enterprises must deliver certain commodities to the Soviet Union and furthermore over the course of a number of years. In words, it is as if the federal government in Bonn is not against being a guarantor of the GDR's obligations. But in fact? Should we not, while it is still not too late, develop a package of appropriate international legal acts where it would be precisely recorded how the economic interests of all parties will be protected? Maybe this [can cause] one more "trade war" to break out like what is already occurring in the GDR's relations with the ChFSR [Czech and Slovak Federal Republic] and similarly with Hungary. Maybe it would be advisable to use the already existing "four plus two" conference mechanism to do this and maybe resolve these problems within the framework of a special trilateral organ. These are extremely important questions since practically two months remain prior to German reunification. But despite this, the economic domain of the former GDR will remain a zone of the Soviet Union's specific interests for a number of years. At least while the Western Group of Forces with an entire complex of material technical supply problems remains here and while German enterprises continue to function that are closely tied to the USSR through trade and which possess an enormous potential of people who have studied and worked in the USSR. History is providing us a unique chance when hundreds of thousands of Soviet citizens in the GDR, military and civilian, during the course of three to four years will somehow or other come into contact with the incredibly difficult process of radical economic transformation on the territory of the former GDR. To not utilize this opportunity and to not involve at least a portion of them in work on projects, for example, of restoration of productivity to abandoned facilities? To not ultimately establish their retraining with the aid of the FRG and GDR? Then, once they have returned home, maybe the people who performed service far from the Homeland for a long time will not feel unneeded. An important question—legal protection of our real property on this territory and possibly also the acquisition of new [property] as many Western firms are already doing.

It is completely obvious that careful study of the experience of the GDR economy's transition to market principles is simply necessary even though it may be only to avoid repeating the errors of others. But many aspects of this process—those like overcoming technical backwardness, structural perestroika, development of small and medium enterprises, pricing policies and, finally, denationalization issues, can present a practical interest for the appropriate Soviet departments, enterprises, and cooperatives. While considering that Berlin has many chances to be transformed into a major All-European

economic center, the idea merits attention about establishing a All-European Research Fund that could develop specific programs for transitioning the countries of Eastern Europe to the market using the GDR's experience.

Turkey Said To Maintain 'Myth of Soviet Threat'

90UF0489A Yerevan *KOMMUNIST in Russian*
4 Aug 90 p 3

[Article by R. Kondakchyan, candidate in historical sciences, senior scientific associate at the Armenian SSR Academy of Sciences Eastern Studies Institute: "Turkey—A Strategic Wedge?"]

[Text] As we know, already after the Potsdam Conference the American administration began carrying out plans preparing for war against the Soviet Union. A particular place in these plans was relegated to Turkey, which occupied important positions at the crossroads of the world land, sea and air communications routes connecting Europe with Asia and Africa. Quite recently, in February of 1983, G. Shultz, who was the U.S. Secretary of State at that time, maintained that "one glance at the map is enough to understand how important Turkey is to the strategic interests of the USA. It is reminiscent of a wedge placed between the USSR, the Near East countries, and the western flank of the Persian Gulf oil producers".

The U.S. ruling circles were counting on the fact that Turkey would understand their strategic plans for opposing the USSR. The calculation was correct. After all, even at the meetings between the leaders of Turkey, England and the USA in Aden and Cairo (January, December of 1943), the Turkish representatives, specifically Saracoglu who was prime minister at that time, tried to instill fear of the mythical Slavic, Russian and Soviet danger, which subsequently was one of the reasons for the "cold war" against the Soviet Union.

At the end of World War II, a domestic political crisis was coming to a head in Turkey. Seeking a way out of their domestic political difficulties, the Turkish ruling circles turned to the USA for help. Therefore, it is no accident that Turkey was one of the first countries to which the USA extended military aid under the Truman Doctrine. After that, Turkey began to receive economic and technical aid from the USA, a significant portion of which was spent on military purposes. Subsequently, Turkey entered NATO (February 1952), after which the Turkish rulers intensified their policy of militarization. The country was becoming a military-political springboard against the Soviet Union.

In recent years, the American military-industrial complex has given Turkey tremendous aid, which increased in the years of the Reagan administration. Thus, for example, while in 1982-1984 the American military, economic and technical aid to Turkey comprised \$2.2 billion, in the next 3 years it comprised \$2.8 billion. Turkey receives military aid also from other Western

countries, and specifically the FRG. Thus, for example, in 1984-1985 the FRG gave Turkey "uncompensated" military aid in the sum of 300 million marks. In July of 1984 the FRG and Turkey signed an agreement on giving the latter a military loan in the sum of 2 billion marks.

Turkey's military expenditures also have a tendency toward constant increase. Each year, Turkey's direct and indirect military expenditures comprise over half of the state budget, or over 10 percent of the national income.

A network of military air bases has been created in the country—over 100 military airports, half of which are equipped for servicing modern combat aircraft, while the airport in Konya is equipped for receiving aircraft from the AWACS [Airborne Warning and Control] system. A large new military airport is being built in Corlu and others are being reconstructed in Afyon, Gaziantep, Erzurum, and other cities. Many military naval bases have been built—about 50 of them. At the present time, 11 of them are undergoing reconstruction. A new military naval base is being built in Aksash (Sea of Marmara).

There are also approximately 60 military bases and facilities operating in Turkey which are under the full control of the American military. Among them, the most apparent are bases for radio electronic surveillance in Sinop, Pirinchlik (Diyarbakir), and Golbashi. According to the data of the foreign press, Pirinchlik provides up to 30 percent of all the information on the launches of Soviet missile technology. American troops in Turkey also have several stockpiles of nuclear weapons—100 bombs in Malatya, Balikesir, Erzurum, Eskişehir, Ercek, etc., which if necessary may also be loaded onto Turkish aircraft. Also stationed here are four squadrons of F-4 and F-104 fighter-bombers with nuclear weapons.

Also located on Turkish territory are medium range howitzers with nuclear warheads. The center for coordination of intelligence and counterintelligence and the intelligence agency of the USA and other NATO countries is located in Istanbul. It is interesting that high-level Turkish military men and civil officials do not have the right of free access to American military bases and facilities. They are in fact not controlled by the Turkish authorities. As some Turkish newspapers maintain, the American military bases in Turkey have become a "state within a state".

Turkey has also given permission for using its military air and naval bases for the U.S. "rapid deployment forces" and has extended the term of the agreement on American military bases to the end of 1990. According to this agreement, new U.S. nuclear missile systems will be based on Turkey. As HURRIET wrote, it gives the American military machine the opportunity of observing the military activity and nuclear weapons tests on the territory of the Soviet Union from their territory. Moreover, there has been a NATO decision to transfer part of its nuclear arsenal to Turkey.

The re-armament of the Turkish army, which at the present time comprises over 700,000 soldiers and officers (7 field armies), is taking place at a rapid rate. This is the second largest army in NATO after the USA.

The Turkish army is re-arming primarily with the latest American and West European weapons. It is now in first place in arms purchases in the USA. The U.S. has agreed to sell Turkey 160 F-16 fighter-bombers for the sum of \$4 billion. Turkey is buying the latest weapons also in the FRG, France, England, and Italy. Thus, for example, it bought the "Mirage-200" airplanes and "Matra" missiles in France.

Almost every month Turkey conducts its own maneuvers or takes part in NATO maneuvers, in which various programs of preparing for military actions against the "designated enemy" are developed. Thus, after conclusion of large-scale maneuvers in June of 1983 in the region of Kars and Erzurum with participation of army units from the USA and other NATO countries, the then commander-in-chief of the NATO armed forces Rogers announced at a press conference in Sarikamish that the maneuvers are a serious deterrent to the Soviet Union. He explained the need for holding maneuvers in Eastern Turkey by the fact that the region is the site of a traditional confrontation between Turkey and Russia. What an envious knowledge of the history of the Russo-Turkish Wars!

In June of 1987, new maneuvers were held in the vilayets of Ararat (Agri), Kars and Erzurum—"Aurora—Express-87", conducted by the NATO mobile forces. The purpose of these maneuvers was to work out coordination in deployment and movement of mobile forces in the regions of "possible enemy incursion".

In the Turkish army particular attention is given to the study of the history of the Russo-Turkish War and the military-strategic aspects of the Transcaucasus, the North Caucasus, the Crimea, Ukraine and the Balkan peninsula.

The military-industrial complex is developing at an intensive rate in Turkey at the present time. Factories have been built for the assembly of American F-16 fighter-bombers, combat helicopters and anti-tank guided missiles. The joint production of the latest weapons is planned also with the FRG, England, France and Italy. The country's own nuclear industry has been created and studies have been completed on the production of an atom bomb. There are three reactors for production of uranium operating in Istanbul and on the Mediterranean coast. Many Turkish specialists on nuclear physics were trained in the USA and other West European countries.

Recently Turkey conducted the test flight of the F-16 fighter-bomber and a successful test of its own missile weapons, which possess considerable destructive force and long range.

Turkey's ruling circles are trying to justify their policy of increased militarization of the country by pointing to the danger from the Soviet Union. Turkey is perhaps is one of the few countries in the world today which continues to believe the myth of the Soviet military threat.

The new aspects in the Soviet Union's foreign policy, the reduction of its armed forces and their withdrawal from the territory of the Warsaw Pact countries are a clear confirmation of its peace-loving nature toward all countries, including toward its neighbor—Turkey.

The vital interests of the Turkish people, the interests of strengthening the independence and security of Turkey and peace in the Near East, persistently demand a rejection of the policy of militarization which is ruinous in all respects, and dictate the need for Turkey's effective participation in the policy of revitalizing the international situation.

Vice Chancellor Riegler on Austrian Federal Structure

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in Russian No 33, 18-24 Aug 90 p 2

[Interview with J. Riegler, Vice Chancellor of the Republic of Austria, by Yu. Sigov; time, place, and date not specified: "There Are Nine States in the Republic of Austria. The Federation and the 'Center'"]

[Text] Josef Riegler, the Vice Chancellor of the Republic of Austria, tells how relations between the "center" and the federal states are structured in a conversation with AIF correspondent Yu. Sigov.

[Riegler] The main advantage of the federal structure is that it guarantees the states' autonomy. States are given the opportunity to govern independently. And the so-called reserve principle, under which those matters which local authorities themselves can decide remain in the states' jurisdiction, is followed here. Because of the federal structure of the country, there is a vertical division of powers, and that broadens the freedom of citizens.

[Sigov] Did all the Austrian states become part of the Republic voluntarily and did they all sign the country's Constitution?

[Riegler] The states declared they were joining the Republic of Austria created in 1918. They thereby expressed their right not only to autonomy, but also to statehood. The state confederations in which the leaders of all the states took part played an important role in restoring the Republic of Austria in 1945. They supported the unity of the republic which was threatened by the establishment of occupation zones by the four Allied Powers. In this way, one may say that the restoration of the Republic of Austria in 1945 was achieved by the joint will of the central government and the states.

And one other thing. Not one of the states failed to sign the Austrian Federal Constitution. However, the states participated in its creation and the structure of the republic order was discussed by representatives of both the central government and the state governments.

[Sigov] Do the laws in effect on the territories of the Austrian states predominate over the national laws?

[Riegler] The principles stated in the Austrian Constitution envision division of functions between the federation and the states. State and federal laws coexist in Austria on an equal basis. Inasmuch as the jurisdictions between the federation and the states are strictly divided under the Constitution, state law cannot regulate national law, and vice versa. If the federal or state law contradicts the Constitution, it can be overruled by the Constitutional Court of Austria.

[Sigov] But can individual states of Austria conclude political and economic treaties with foreign states?

[Riegler] They can, but with certain restrictions. According to the Federal Constitution of Austria, states can conclude state treaties with countries adjacent to Austria or with parts of these countries on issues which are in the sphere of their independent activity. Before concluding a state treaty, the heads of the state government must apply to the federal government for permission.

I should add that at the demand of the federal government, states are obliged to cancel state treaties that have been concluded. If the state does not carry out this order, all jurisdiction on this treaty passes to the federation.

[Sigov] Does the central government of the Republic of Austria have the right to stop deliveries of raw materials or any other goods to a state which is following a policy that does not suit the "center"?

[Riegler] Such a measure by the federal government would contradict the country's Constitution. In accordance with Article 4 of the Federal Constitution, the territory of the State of Austria forms a unified currency, economic, and customs region. No separate customs zones or other restrictions can be set up within the territory of the federal state. Stopping deliveries of raw materials or any other goods to a certain state would mean creating a "different kind of restriction of communication"; and according to Article 4 of the Federal Constitution, that must be considered an act of the federal government which contradicts that Constitution.

[Sigov] What would the actions of the Austrian federal government be if one of its states declared itself independent?

[Riegler] There has never been such a case in Austria's entire history. But if one can still imagine that any of the federal states would declare itself independent within the boundaries of the Republic, the federal government would be obliged to enter into negotiations with that state. It would have to reveal the reasons the state declared itself independent and try, when possible, to eliminate the conditions which resulted in this step in order to preserve the republic's unity.

If even after these steps the unity of the state could not be preserved, then, in my opinion, the federal government would have to recognize that state's independence, since the very fact of the establishment of the Republic of Austria in 1918 relied on the idea of respect for the rights of peoples to self-determination.

Pravda Correspondents Debate Changes In East Europe

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Second Edition p 5

[Article by PRAVDA Special Correspondents Yevgeniy Spekhov and Andrey Sharyy: "Eastern Europe: Where Do You Get The Republicans?—PRAVDA Special Correspondents Yevgeniy Spekhov and Andrey Sharyy Hold A Contentious Dialogue On Events And Trends In The Allied Countries"]

[Text] [Sharyy] In my opinion, not a single fact that alters the colors in the political picture of the East European countries has escaped the press's attention. Meanwhile, the mail brings more and more letters in which ask readers just what is going on in these allied states.

[Spekhov] One can understand the readers. Events in our own country are not easy to sort out, and now they are faced with an avalanche of information from Eastern Europe. The view that the toppling of authoritarian regimes signals the certain collapse of socialism as a school of social thought is held rather widely today. Sentiments in speeches, articles, and discussions range from panic to malicious gloating, from reproaches about having "surrendered our positions" to criticism of our foreign policy. But a sober analysis of what is going on should doubtless be the paramount consideration. Let us try to reflect on the situation, completely throwing off the "internal censor" that, it sometimes seems, has been present in people of my generation since birth.

[Sharyy] In this respect, things are somewhat easier for me. In my generation, ideological cliches, it seems, never had time to harden to the indestructibility of concrete.

[Spekhov] That's understandable. But our generation was molded under different conditions—with songs about loyalty to the leader, and there's no getting around this. But tell me this: Remember the night of January 12 in Bucharest, when virtually right before our eyes, and under pressure from a hysterical mob, the new government outlawed the Communist Party? Do you remember how people started burning their party cards? Why did we, people of different generations and different views on life, experience similar feelings? Why did we writhe with pain inside, why were we shaken psychologically?

[Sharyy] Why were we so disturbed? We were witnessing the graphic collapse of an idea (or, to be more precise, the carcass of that idea) that people of several generations had aspired equally to realize. I recently read Academician Sakharov's memoirs: "It took me years to understand and to realize how much falsification, exploitation, deception, and discrepancy with reality was in these notions." Years! In Bucharest, this took place in a matter of days.

But the stability of social structures proved greater than expected by those who thought that by removing the

Communists from power, they would get rid of socialism. For there is also a spontaneous socialist element in the masses' consciousness. However, we shouldn't flatter ourselves by saying that once the Poles, Romanians, and Hungarians get a taste of capitalism, they'll quickly see the light. Along with undoubtedly healthy tenets regarding the safeguarding of social guarantees, a sense of collectivism, and ideal notions of equality, this element also contains a factor that ultimately buried "real socialism."

[Spekhov] During the decades of its existence, the command-administrative model of socialism spawned a phenomenon that can be fully overcome only over a period of years. You are no doubt referring to social dependency—where the state constitutes a kind of blanket social security system. The state will provide everything, help everyone, and see to everyone's needs. This exterminates people's ability to be enterprising.

[Sharyy] Are you suggesting that a "shock therapy" policy in one degree or another is obligatory in any East European country, since it alone can cure society of social dependency? A change in model of social development involves not only shifts in the economy; it also entails a breakthrough in people's thinking. A different attitude toward work, if you please. Consequently, an extremely difficult period with strikes and hundreds of thousands of unemployed is unavoidable...

[Spekhov] Of course it is unavoidable, to think otherwise would be naive. But how to soften the impact of this blow is another matter. By slowing the pace of reform? What, for example, accounted for the National Salvation Front's election victory in Romania? In my view, the fact that, among other things, its program offered a certain amount of stability. Yes, you can call that a dependency syndrome, a fear of monumental, radical change. But one could also take a different view and call it the elementary human instinct of self-preservation. The "historical" parties, incidentally, proposed just such drastic, radical reforms, but many voters apparently preferred to go with a known quantity.

[Sharyy] But why wasn't this instinct of self-preservation at work in the Poles, for example? For the former regime in Romania "tightened the screws" to a far greater extent, and a desire to get rid of its legacy as quickly as possible would be natural.

[Spekhov] We shouldn't use the same yardsticks here. In Romania, that protest took on stormy, sometimes brutal political forms, something that did not take place in Poland, perhaps also on account of the radicalization of economic reform.

[Sharyy] Do you mean to say that in June the Romanian miners went to Bucharest to impose "revolutionary order" precisely with the aim of protecting their instinct of self-preservation?

[Spekhov] To some extent, yes, if we ignore class consciousness. The miners didn't know what—

constructive!—proposals the opponents of the government and the new authorities would make. The "historical" parties had no roots among the people, their leaders had returned from emigration literally days before. Therefore, voters still had misgivings about their policies. Remember what National Peasant Party leader Corneliu Coposu told us in January: We will win 60 percent of the vote in the elections. But in reality they won just three to five percent...

[Sharry] However, according to the logic of things, this instinct of self-preservation—that is, people's desire to resist drastic change—hinders social development. People's desire, both now and in the future, to have a guaranteed subsistence minimum is understandable; but on a national scale, this runs the risk of stagnation.

[Spekhov] But in Romania, the new government is going farther. Its program is to move from a hyper-centralized economy to an ultra-liberal one, as some Romanian newspapers write. Perhaps this program is overly optimistic and will require the use of "shock therapy" at some point. The reform is still going to come up against the fear of change on the part of the majority of the population.

[Sharry] Like us, the East European countries are hindered on the path to the market by the degree of competitiveness of their economies.

[Spekhov] It is important to find a certain point of departure. For example, in Czechoslovakia agriculture is relatively well developed. There the painful part of the process will apparently involve price increases. Hungarian farmers, for example, have reacted very coolly to the decision to transfer land that once belonged to cooperatives to private use. There are, incidentally, other factors about which people in our country prefer not to write and speak. The Romanian government had only to behave in a way at odds with what the Western countries wanted—I am referring to the student demonstrations and the miners' appearance on the streets of Bucharest—and economic relations were suspended.

[Sharry] That's quite natural. The miners' action was the result of the many years' operation of the command-administrative system. Such questions must be resolved within the law; you can't give the workers a club with which to impose order.

[Spekhov] Then the students, too, should have acted within the law.

[Sharry] I am by no means trying to excuse the students. For the issue is not those events as such. To date not a single East European country has created firm legal foundations to prevent such excesses. This is how it should be: If the students or someone else violates the Constitution and the laws—take them to court. Any government is strong by the power of the law, not by the power of repression. If, on the other hand, real democratic government is lacking, but there is a realization

that violence cannot bring effective results—then what should happen is what happened in Bulgaria: The President resigns.

[Spekhov] Any democracy has asserted itself—and asserts itself!—by defending itself. Often by nondemocratic measures, but within the law.

[Sharry] In the ideal, democracy does not, in general, accept extremism. It is asserted not through violence, but through democratic methods. At least, that's the way it should be.

[Spekhov] You are divorcing theory from real practice. Montesquieu, it seems, wrote that a tendency toward abuse is inherent in any government, and he therefore proposed to institute a government "that would restrain power." The old, "real" socialism also proclaimed its inseparability from democracy, but the belief in the existence of just one path to a bright future compelled society to develop according to different laws. Instead of a "government that restrains power," violence was used—begetting violence in response.

Incidentally, the "Eastern cyclone" in Europe has confirmed this anew. The "October Revolution" in the GDR—which, incidentally, is almost forgotten today amid the problems associated with German unification—went from peaceful demonstrations to the ransacking of the Ministry of National Security building. The Romanian "children's revolution" proclaimed the primacy of the norms of civilization only after mercilessly executing the dictatorial couple. And what about the persecution of Communists in Czechoslovakia?

[Sharry] You are right in the sense that only a society built on affirmation, not negation, can be strong. For we also built our society on negation—negation of our previous culture and previous social and political structures. In effect, we built not socialism but capitalism with a minus sign—anticapitalism. In my opinion, anti-socialism and anti-Stalinism are being created in Eastern Europe. The swastika is sometimes equated with the hammer and sickle. From the viewpoint of a healthy person—that is the same blind alley. The stormy events in Eastern Europe were "driven" by young people. They knew nothing save distorted socialist dogmas.

[Spekhov] If they didn't know anything else, that doesn't mean they shouldn't have.

[Sharry] That's not their fault. I remember, when we were in Bucharest in January, when you said to me shortly after the Communist Party was banned: "Just wait till the workers come. They'll have their say."

[Spekhov] But the banning decree was rescinded.

[Sharry] But not as a result of intervention by the workers.

[Spekhov] Not too fast. The incorrectly understood dictatorship of the proletariat brought nothing good. The incorrectly understood idea that built the incorrectly

understood socialism. But, you will agree, the following is often happening in Eastern Europe today as well: The dictatorship of the partocracy is being supplanted by another dictatorship—the dictatorship of the former opposition. Jan Tesař, until recently a Czechoslovak dissident, put it well: "In a revolution, one is allowed to say what benefits the revolution." Not one of the newly formed governments in Eastern Europe has avoided charges of undemocratic methods, of ignoring different points of view, and of using methods of exercising power that, in other conditions, they themselves had criticized. This is another syndrome of command socialism. Government understood as dictatorship. If you please, class arrogance. Owing to the absence of democratic traditions, we see not a struggle between cultures, but culturelessness.

[Sharry] It is a dialogue of the deaf.

[Spekhov] National consolidation was achieved on the basis of rejection of the former model of socialism. However, this didn't last long: Just a few weeks and months later, we now see another sharp polarization of forces in virtually all the East European states.

[Sharry] But it can already be said that new structures of power are operating. It's still too early, however, to speak of genuine popular rule. Power essentially remains in the hands of a party. Of several dozen parties, three or four make it into parliament, and one—as a rule, not even a party, but a public movement—proves able to form a government.

[Spekhov] Solidarity in Poland, the Democratic Forum in Hungary, Romania's National Salvation Front, and Civic Forum and Public Against Violence in Czechoslovakia, all of which are now in power, continually try to emphasize their "extraparty affiliation." This allows them, by virtue of a more diffuse program, to retain the greatest possible number of supporters for the time being.

[Sharry] I think, incidentally, that this is a rather temporary phenomenon. Any government needs a clearly formulated program of action. This objectively narrows the social base of its supporters. Therefore, it seems to me that all the regimes now in power in the East European countries are doomed to a partial loss of popularity—by virtue of both the objective disillusionment of at least part of the public in the effectiveness of the economic and social decisions they propose, as well as by virtue of the processes of political polarization, which haven't stopped but are only gathering momentum.

[Spekhov] And so I would say that any government has an interest in imposing limits on democracy that are to its advantage.

[Sharry] You understand, there's no reason to doubt the subjective aspiration of the present leaderships in the East European countries to observe democratic norms. But in addition to this, as we have made clear, there also

exist relatively stable totalitarian social structures. There is, in the end, an economy ideally adapted to a one-party mechanism. A certain public consciousness was molded over a 40-year period.

[Spekhov] Then the following question arises: To what degree are the forces now in power capable of accepting self-government and popular rule?

[Sharry] They aspire to form the Western bourgeois model of popular rule, which, incidentally, is a far more tolerant social model than the one that presently exists in the East European countries. For instance, does a French Communist run the risk of being spat upon on the street? In any case, he runs a far smaller risk than, say, a Communist in Czechoslovakia, not to mention Romania. The problem is that people continue to be divided into friend or foe. Public consciousness continues to accept this entrenched "dichromatic" political spectrum, which has existed for decades. A political upheaval has occurred—the pyramid has been turned upside down: What used to be white is now black.

[Spekhov] You see, we have come back to the inadequacy of political culture and democratic traditions. As the saying goes, it's easy to declare a republic, but where do you get the republicans?

[Sharry] Well, it's clear: Republicans have to be cultivated, because there's simply no other way. I should point out, however, that in the East European countries, the natural base for "cultivating these republicans" has been narrowed, since some groups of the population are pitted against others.

[Spekhov] Are you referring to the working class being pitted against the intelligentsia?

[Sharry] Yes, and this has been demonstrated most graphically in Romania. The primary role in the search for a new model for building society has been played by the creative intelligentsia, which has generated many of the ideas now being implemented. One can even discern a curious tendency: Czechoslovak President Havel is a writer, Hungarian President Arpad Gonts is a translator and playwright, and Geza Domokos, one of the most popular politicians in Romania, is also a writer. The intelligentsia has become the spokesman for the ideas of national self-awareness, which played a considerable role in all the East European "revolutions." These ideas have been artificially pitted against the emphatically internationalist ideology of the working class, an ideology that sacrificed the interests of the nation to the idea of universal equality.

[Spekhov] That is a fundamentally incorrect position. The working class and peasantry are in any case the bearers of universal human values. The idiotic notion that class values and universal human values are incompatible has been pounded into us. It is another matter that, given the state's total monopoly on propaganda, ideology, and the molding of public consciousness, one

can speak of the fact that the intelligentsia's ideas have not been accepted by the majority of the working class.

[Sharyy] There is, incidentally, a thesis holding that the intelligentsia is assuming power in order to lose it, to turn it over to other social forces.

[Spekhov] What an interesting situation. Here is the opinion of the Hungarian writer D. Konrad, the new president of the international Pen club: "Now power will be turned over not to some single class of society but distributed evenly, ruling out any monopoly on power, which only does harm. A certain sector of state administration will remain in the hands of a professional bureaucracy, and businessmen, with the help of economists, will start developing the economy. The all-embracing power of the political bureaucracy will be overcome. The role of the intelligentsia in this historical process is enormous."

[Sharyy] Does it not seem to you that processes in Eastern Europe will continue to proceed in a complex and uneven fashion and with significant unrest, since before the chief objective of each political force was to take power, while now the question is what to do with it?

[Spekhov] Without a doubt, we will encounter in Eastern Europe a mosaic of political regimes of varying types.

[Sharyy] And what about their political and social orientation?

[Spekhov] You see, our usual wish to clearly and immediately ascertain a government's "party" and "ideological" orientation on the basis of our traditional perceptions is unsubstantiated in this situation, in my view. I think that all the East European peoples are striving to build a democratic society oriented toward humanism.

[Sharyy] Demarcation is inevitable, however. A nation cannot be united in everything. It seems to me that competition among alternative political programs will lead to an awakening of thought.

[Spekhov] There has to be a limit...

[Sharyy] But who is going to set it?

[Spekhov] I think the economy, above all. Social stability is largely determined by the course of economic development. And secondly, a guarantee of the irreversibility of democratic transformations in society. Without this, neither we nor our East European neighbors are going to move forward.

Separatism, Nationalism Threaten Czechoslovak Federation

90P50093A Moscow PRAVDA in Russian 10 Sep 90
Second Edition p 5

[Article by PRAVDA correspondent A. Krushinskiy: "Separately or Together?"]

[Text] The autumn session of the Czech National Council (as the supreme legislative organ of the Czech

Republic is called) has presented a number of surprises to the public.

First of all, out of the five draft laws proposed for discussion, two were immediately rejected due to insufficient preparation. Secondly, the question which has become central, one which was not even on the agenda, regards the integrity of Czechoslovakia as a federation of two equal peoples. This theme has occupied first place both in parliamentary discussion and in the central press.

"The Death Knell of Centralism," "Mutual Misunderstanding Gives Rise to Fear," "Don't Let the Federation be Dismantled"—these front page headlines in the Prague newspapers precisely indicate the main topic of the autumn session. Centrifugal tendencies, separatism, and the wild outburst of nationalist passions have become a natural law of their own, and a negative "side effect" of the complicated processes going on in the East European countries, not excluding Czechoslovakia.

Peter Pitgart, head of the Czech government, speaking right after the opening of the session, characterized the phenomenon this way. "The mutual misunderstanding of our peoples today is so serious that it gives rise to fear. Slovak papers practically never reach Czechia, Moravia, or Silesia. The Czech Republic papers, with one exception, do not have their own correspondents in Slovakia. Television only rarely gives us the possibility to see what the Slovak viewers watch, and vice versa. This, in my view, is extremely dangerous, even more so than the speeches of Slovak separatists."

As regards the separatists, their activity has greatly increased in the last few weeks. At the end of July the Czechoslovak press reported on the rise of a movement for an independent Slovakia. Separatism, evidently, can be seen in the program proposals of the Slovak People's Party. "Down with the CSFR!" "Goodbye, Czechs!" These were the slogans heard at a meeting of 15,000 people in the Slovak city of Ruzomberok at the end of August. It was dedicated to the anniversary of A. Glinki, the organizer of the clerical-fascist Slovak People's Party—allies of Hitler during the liquidation of Czechoslovakia at the end of the 30's. But separatism in the literal sense of the word has no boundaries. In the Czech Republic itself, in the city of Brno, the movement for separation of Moravia and Silesia is hurrying to gather points. During the course of a meeting with Slovak separatists held several days ago in Bratislava, the leader of this movement, B. Barta having subjected "Prague-centrism" to attacks, literally said the following: "If Prague insists on a federation according to national principles, the Moravian people will arise even before elections."

Many observers here are inclined to think that the time is not ripe for the separatists. The majority of the Slovaks and the Czechs (whether they live in Prague or Brno)

want to preserve the CSFR as an equal federation of the two peoples. Many people, however, worry that the governments of both republics have already started to "recycle" the desire to seize from the federal government as many functions as possible. An indication of this is the regular work of the legislative organs. First (at the end of August) the Slovak National Council held its session followed by the Czech National Council and only after that (on 12 September) did the session of the Federal Assembly open. At that time, P. Pitgart, in his above-mentioned speech defended the concept of the primacy of the republic constitutions over the federal. However, the main motif of his speech was the need to save the federation. He spoke out for strengthening the ties between the two republics. On the federal level, the Czech premier emphasized, transport, communications, energy, security of the state borders, and foreign policy should be managed.

He feels that broad public opinion and the majority of civic mass media recognize the dangers of such centrifugal tendencies under the complex conditions of forming a new political system and changing over to a market economy.

Lessons Of Budapest Stock Exchange Considered

90UF0507A Moscow IZVESTIYA in Russian 24 Aug 90
Morning Edition p 5

[Article by Staff Correspondent F. Lukyanov: "Report From Hungary: Whom The Stock Exchange Favors"]

[Text] Budapest—The recent opening of the Budapest Stock Exchange—the first in the East European countries—was attended by almost the entire elite of the European business and financial world, including numerous sponsors of the new financial institution. However, the description "first" is not entirely appropriate here, since a stock exchange existed in Hungary, as well as in other East European states, up until 1948. The impressive stock exchange building on Budapest's Freedom Square has been preserved. It now houses the television network.

Frankly speaking, outwardly the Budapest stock exchange bears little resemblance as yet to the celebrated New York or Tokyo Stock Exchanges, with their enormous sign boards and hundreds of brokers. Things are much more modest here, and the volume of transactions, of course, is not the same. However, according to the stock exchange council chairman, 36-year-old Layosh Bokrosh, the most important thing is that it's a start.

"It wouldn't have been difficult to open up a nominal stock exchange earlier. But setting up a stock exchange that operates the way it's supposed to is not that simple," L. Bokrosh said. "For this requires, at a minimum, a securities market that the stock exchange can serve. Not to mention such conditions as the existence of joint-stock societies, brokerage firms, and much more."

Indeed, it took Hungary eight years to set up a securities market sufficient to support a stock exchange. In permitting the issue of securities back in 1982, the Hungarian government pursued the following goals. First, to attract additional capital from the public's money boxes, so that that money wouldn't lie around like a deadweight but constantly circulate and work, earning profit for the depositor—and ultimately for the public as a whole—in the form of interest. Another important hope was that the issue of securities (bonds and treasury bills) would make it possible to regroup capital among enterprises and to channel it toward facilities promising a quick return. The state could thereby turn to the public for help in offsetting the state budget deficit.

Generally speaking, the hopes associated with the issue of securities have been borne out. Since 1983, more than 300 varieties of bonds have been issued in Hungary, with a total face value of more than 30 billion forints. Seventy percent of all securities are held by the public. Of course, in order for the depositor to prefer to invest his money in securities instead of something else, it was necessary to make them more attractive—by paying an interest rate higher than that offered, for example, by savings banks.

A law on economic associations adopted in 1989 marked a new step in the formation of a securities market and the democratization of economic life. Since then, the process of converting enterprises into joint-stock societies—a process linked with destatification and the transition to more effective forms of property—has taken on landslide proportions. Whereas approximately 50 major state enterprises were converted into joint-stock societies last year, often with the enlistment of foreign capital, almost 350 such joint-stock societies had been set up by the middle of this year, and their fixed capital was estimated at 200 billion forints!

However, it should not be assumed the process of destatification of enterprises—many of which are unprofitable even in Hungary, which has considerable experience at economic reform—is proceeding smoothly. Yes, through conversion into joint stock societies, many enterprises have managed to attract considerable capital in a short period of time, including capital in the form of convertible currency, and to thereby remain afloat and avoid bankruptcy. In the past few months, leading concerns and firms of America, Western Europe and Japan have appeared on the Hungarian market in one or another form, often as joint enterprises. Among them are General Motors, General Electric, Ford, Shell, Phillips, and Suzuki. Total foreign capital in Hungary at present is estimated at \$1 billion.

Until recently, however, the influx of foreign capital—apart from the introduction of new technology and promising forms of management—brought with it considerable problems. Since foreign depositors' purchase of shares—often a controlling interest—in one or another enterprise took place behind closed doors, one could often hear speculation and even charges that shares were being sold below their actual value. In other words, that

enterprises were essentially being sold on the cheap. At the same time, Hungarian depositors who wanted to invest forints in enterprises complained of discrimination vis-a-vis foreigners, who were given priority since they were investing hard currency.

In short, the absence of an objective regulator on the securities market had begun to tell, and in a rather acute form. True, an attempt was made to set up a special agency to coordinate rates of exchange for bonds and shares, but it was in no position to cope with the ever-growing stream of securities. The opening of the stock exchange, then, was foreordained by the course itself of economic processes.

"It's hard to overestimate the role of a stock exchange in a modern market economy," said the exchange council chairman, continuing our discussion. "The exchange is what determines what a given firm is worth, whose shares will go up, and whose shares will go down. Most importantly, all this is determined in an honest way and in plain sight—not behind the scenes."

The stock exchange, Bokros said, can be an extremely important instrument in carrying out property reform in Hungary and the other East European countries, turning property that belongs to nobody—in effect, bureaucratic property—into the property of each individual worker or employee of a given enterprise. But to do this, the authorities must draw up a special program that gives priority to small depositors who buy shares with the national currency.

Needless to say, there are a great many attractive elements in what the chairman says. The only thing is, I don't know how realistic this is at present given the prevailing conditions in Hungary, where the government is looking for any means by which to attract foreign capital in order to boost the economy.

True, that such a privatization model is possible is demonstrated by the initial experience of the Budapest Stock Exchange in selling shares in the Ibus tourism agency. Of 440,000 shares valued at 1,000 forints, (about 50 rubles), the State Property Agency, which was specially created in order to monitor the process of enterprise destatification, proposed that 40,000 shares be offered exclusively to Ibus employees on preferential

terms. Each employee could buy up to 40 shares and pay just 10 percent of the initial cost, with three years to pay the balance. Another 70,000 shares were set aside exclusively for small depositors. The rest could be purchased by enterprises, banks, and insurance agencies. And by foreign investors.

As far as one can tell, the initial experience of stock exchange privatization has been successful. The value of shares on the stock exchange has risen by almost 100 percent in comparison with originally stated values, and the shares have been sold for an average of 9,000 to 10,000 forints! Ibus shares didn't do bad on the Vienna Stock Exchange either. As a result, last year's debt has been replaced by a sizable influx of capital—approximately 2 billion forints. Today, even if all the Ibus shares put up for sale, including those offered abroad, were to be sold, controlling interest—nearly 60 percent—would still remain in the hands of the State Property Agency, which plans to gradually distribute the remaining shares over two to three years, and in such a way as to prevent controlling interest in Hungary's largest tourism agency from falling into the hands of a foreign competitor. Henceforth, all Ibus shareholders will have the right to vote on major decisions concerning the firm's fate. There are already plans for using the money raised from the sale of shares to carry out extensive modernization, to introduce computers, and to expand the network of bureaus, so that people don't have to spend two to three hours standing in lines.

Judging from initial public reaction, it seems that the "Ibus model" could satisfy the main political forces in Hungary today. This is of no small importance considering that the issue of privatization is currently one of the most acute in the country and is literally at the center of political clashes. L. Bokros, until recently a member of the Board of the Hungarian Socialist Party and a Deputy to parliament, believes that this form of privatization is called upon first and foremost to turn the workers into proprietors with a real stake in their firms. These people will now become co-owners of their enterprises; they will no longer be laborers without any rights, as was the case up till now. It seems to me that in this regard, the initial experience of the Budapest Stock Exchange is very valuable for our country as well.

China's Experience In Defense Industry Conversion Noted

90SV0009A Moscow *LITERATURNAYA GAZETA*
in Russian No 35, 29 Aug 90 p 15

[Article by Igor Yegorov: "Conversion: Chinese Experience"]

[Text] Vuchetich's sculpture "Beating Swords Into Plowshares" has stood before the UN building in New York for over three decades. But only now, after the end of the "cold war," has the United Nations Organization been able to hold in Moscow the first international conference entitled "Conversion: Changes In the Economic Sphere In the Age of Arms Reduction."

Satisfaction with the forum's undoubted success—at last the whole world has come together to discuss how best to "beat swords into plowshares"—is giving way to concern: What a mountain of problems has to be tackled, how sagacious and wise our Soviet strategists of conversion must be!

In this respect, the experience of conversion in China is no doubt of special interest to the Soviet Union. For all our differences, we are in many ways similar. Conversion, decentralization of economic management, and the introduction of market mechanisms are proceeding in tandem both in our country and in China. The points of departure are similar: a socialist, relatively inefficient economy that lags markedly behind the world leaders. Enormous and very unevenly developed territories. Both

countries are concerned for the fate of entire cities that work for the defense industry. Colossal armies are being reduced in both countries. But China began somewhat earlier and has already cut 1 million soldiers. Already, one third of Chinese defense enterprises' output is of a nonmilitary character. And China has already succeeded in halting the flight of highly skilled specialists from enterprises subjected to conversion.

Here are just a few pieces of practical advice that Tszin Chzhude, chairman of the Chinese Association for the Peaceful Use of Military Industrial Technology, shared with me.

The state must above all see to it that enterprises subject to conversion thoroughly study the market and carefully consider the choice of their future civilian output.

The state helps enterprises during the transitional period by giving them three- to four-year loans until they get on their feet. These loans meet just half of their expenses; the enterprises get the rest of the money themselves in the form of loans from local authorities and banks.

Where possible, the military makes surplus army equipment and installations available for joint operation with civilians. More than 10 military airfields have already been opened in China, and restrictions are being lifted on ship calls at certain ports. In addition, the air force and navy have set up their own civilian airlines and a steamship line and are earning money to supplement the military budget.

Here it is, a quite unexpected way of dismantling Aeroflot's odious monopoly! Perhaps we ought to try it.

**KGB Notes Progress in Soviet POW Recovery
From Afghanistan**

90P50083A

[Editorial Report] Moscow ARGUMENTY I FAKTY in Russian No 32 of 11-17 August 1990 publishes on page 7 a 200-word article entitled "The KGB Reports," which is attributed to the Public Relations Center of the KGB of the USSR. The article notes that in response to the KGB's request for assistance in searching for and freeing

former Soviet soldiers imprisoned in Afghanistan, Afghanistan's Ministry of State Security has created a special state commission. Headed by the country's Minister of State Security, this commission is engaged in negotiations with the "insurgents" for the purchase and exchange of prisoners. Information concerning the location of a number of soldiers, as well as the necessary means to organize their release, has been obtained. As a result of Afghanistan's efforts, four individuals were released from captivity in the period of April-July 1990.

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